Economic Affairs / A Monthly Analysis

A special supplement to CHALLENGE

December 1, 1961

DEFICIT UP—The federal government's budget for the year ending June 30, 1962 has been revised several times. The outgoing Eisenhower Administration made up the first draft, proposing expenditures of $80.8 billion and estimating receipts of $82.3 billion. This would have meant a surplus of $1.5 billion. But this budget, presented to Congress in January, 1961, was quickly altered when the new Administration came into power.

The business recession, then in progress, prompted the incoming Administration to ask for greater spending powers. Under the new budget the government was to incur a $2.5 billion deficit in fiscal 1962. A balanced budget was promised for fiscal 1963. Since the 1961 budget was showing a deficit of close to $4 billion, the new proposal was not a startling one. In effect, it was to help support the economy, at a gradually tapering-off rate, through the end of the recession. Then when the economy became strong enough, surpluses could be used to reduce the national debt, dampen inflationary pressures and strengthen the dollar in international finance.

A few government economists worried about 1963. By their calculations, tax revenues would rise so sharply by then that too great a surplus might depress the economy. This raised the possibility of tax cuts and spending increases, both within the framework of a balanced budget.

The Berlin crisis put an end to all this. The President went to the country to ask for an additional $3.5 billion to strengthen defenses. An estimated deficit of $5.3 billion was a result of the defense program.

The latest estimates put the current budget at over $89 billion. With revenues anticipated at near $82 billion, this puts the deficit for fiscal 1962 at about $7 billion. And it could be higher.

The major increase in the cost of government comes from defense needs. Spending for defense is now estimated to be $3.7 billion more than it was in 1961. The second largest cause is the agricultural support program, up a walloping $1.2 billion over the previous year. Combined expenditures for international affairs and for the space program have gone up by $1.1 billion. Spending for civilian projects other than agriculture—including housing, community aid, natural resources, health, education, labor and welfare—is now $1 billion higher than it was in the last budget.

Government departments are being told to cut back and to exercise frugality in their activities. The Defense Department is sitting on appropriations for bombers, on the ground that the bombers are strategically unnecessary. Attempts are also being made to hold back on increases in government employment.

Plans for the fiscal 1963 budget are being made now and will be given to Congress this coming January. Right now it looks like a $92 billion budget. If so, there's no possibility of a general tax cut, although some tax reforms may be made. With the upswing in the economy, the Administration hopes that tax revenues will rise by $10 billion. In that case, expenditures will just about equal revenues, give or take half a billion. But it's going to be a very close shave.

SPECIAL CORRESPONDENCE—The fight to liberalize our foreign trade policy promises to be one of the bitterest political battles of 1962. The President has decided to launch a drive for broad powers to make steeper across-the-board tariff cuts. The protectionists are prepared to fight him every inch of the way.

The issue cuts across party lines and affects practically every Congressional district. Democrats and Republicans alike are under heavy pressure from both business groups and labor unions who have been hit by foreign competition.

The showdown will come on the question of renewing the Trade Agreements Act which expires in June. The old law authorizes the President to make cuts up to 20% in import duties in exchange for reciprocal concessions by other countries.

The heart of the Administration's new foreign trade plan is to ask for authority to negotiate cuts up to 50%. In addition, the President will ask for power to make tariff-cutting trades on broad categories of commodities rather than on individual items. This would adjust our bargaining to the general pattern preferred by the European Common Market.

In an attempt to soften the protectionist opposition, Kennedy will recommend several measures to ease the impact of freer trade on domestic producers. These would include more government procurement from areas hurt by imports, stepped up depreciation allowances and the retraining and relocation of displaced workers.

The final outcome of the fight will depend on the Administration's ability to sell it to the American people by explaining the international consequences of an illiberal trade policy. In the end, the least that Kennedy will get is an extension of the present program. But he has a good chance of getting authority to negotiate additional cuts—although probably not as high as the 50% he is asking for.

Recent Mexican restrictions against American business operations did not result from the usual causes of such moves—ultranationalism and anti-yankeeism. They were the results of complaints by Mexican businessmen about American competition in their domestic market. Mexican-owned businesses have grown at a phenomenal rate over the past 2 decades. In the last 5 years alone the number of Mexican enterprises has almost doubled.

Turkey's association with the Common Market has been postponed for the time being. The CM, however, is proposing to grant financial and commercial assistance to the Turks to enable them to develop their economy to a level where association would be more practical. In the intervening 5 to 7 years, a modified form of customs union would prevail. While the Common Market's reaction was not unexpected, the Turkish government had hoped for something better.

The West German government is deeply worried over the possibility of an inflationary spiral. Productivity is unlikely to rise by more than 5% this year, while over-all wage increases will be about 11%.

Japan's booming economy is creating a serious economic problem for the Ikeda government. Prosperous Japanese consumers have created such an attractive domestic market that many businessmen prefer to sell at home than engage in the highly competitive export market. This is quite similar to the problem in the United Kingdom and could eventually result in serious imbalances in Japan's payments position.

This is not an easy problem to solve, since any move toward austerity is bound to have political repercussions.

COVER BY HOWARD WINTERS

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AS OTHERS 'SEE' US

THE CURRENT ISSUE of the Soviet publication *International Affairs* carries an article in which a Prof. S. Vygodsky outlines "Some Features of the Crisis of World Capitalism." The article is interesting on several counts: first because it is a masterly demonstration of how the tools of scholarship can be used for the artifacts of propaganda; second because it reveals a thorough familiarity with the statistics of the American economic scene; and third because it uses one set of criteria to measure the "failures" of capitalism and quite another set to contrast these so-called failures with the "successes" of communism.

We ought not to blame Prof. Vygodsky too much on the first count. For *International Affairs* is, after all, an important propaganda organ of the Soviet state. Why else would it be translated, in the Soviet Union, into a score of languages for distribution in 53 countries, developed and underdeveloped alike?

Nor should we be too surprised on the second count —that is, after one checks Prof. Vygodsky's statistics on the U.S. economy and finds them to be reasonably accurate. The *Statistical Abstract of the United States* is compiled and published annually by the U.S. Department of Commerce, and anyone can purchase a copy for $3.50. The statistical facts of the American economy, or at least as much as anyone can know about them, are readily available to everyone who wants to take the time to peruse them. I only wish the same were true about the statistics of the Soviet economy.

On the third count, however, Prof. Vygodsky really gets himself into deep water, and his thrashing about in a sea of double talk can only be called pitiful. He gives us the usual Marxian line about overproduction in capitalistic countries, the inability of the masses to maintain sufficiently high levels of consumption, economic downturn, unemployment and the consequent low levels of economic growth, accompanied by the further erosion of the economic position of workers.

According to the Soviet professor, these are the ingredients of crisis in modern capitalism. Progress, such as it is, is a disorderly process in capitalist countries, we are told, and therefore the economy of the Soviet Union, which does not suffer from such disorders (according to Vygodsky), will match the industrial production of the U.S. economy by 1968.

It is not my intention to rebut the various points raised in the Vygodsky article. It wouldn't be worth the time to take the author all that seriously. What does interest me, however, is Vygodsky's assumption that the Soviet economy does run smoothly, without periodic crises, in an orderly, almost inexorable move toward a Utopia that will soon leave the capitalistic countries (the U. S. A. particularly) far behind. The U.S. economy simply isn't efficient enough to maintain its lead in the economic race, we are told. The Soviet system is clearly the superior one, according to Vygodsky, because it does not suffer from overproduction, business cycles and unemployment. And he cites *our* statistics, as compiled and evaluated by our own capitalistic criteria, to support his thesis.

But when it comes to citing the extent of Soviet economic successes, Vygodsky studiously avoids capitalistic standards and confines his measurements to values prevalent in Soviet communism. It would appear that Vygodsky wants the most suitable parts of both worlds to support his distorted views on efficiency.

I suggest the performance of the two economies be measured by the same criteria, or not at all. And since we are more familiar with our own standards of efficiency, let us apply these standards to an area of production of which the Soviets seem particularly proud.

Soviet efficiency as such

Housing. The Soviets say housing costs the working man too much in capitalist countries. In the Soviet Union, where no landlord can gouge a worker, only 10 to 18 per cent of monthly wages is paid for rent. In the United States the typical figure is 25 to 30 per cent. But what is the real story?

A cost of 10.88 rubles per square meter of housing built is considered acceptable in the Soviet Union today. Thus, an apartment of 40 square meters (two rooms, kitchen and bath) will cost 435.2 rubles to construct. At two per cent per year for upkeep and administration, and a life span of 30 years for the building, a monthly rent to cover costs would have to come to 20 rubles, or 25 per cent of an average worker's wages. Yet, such an apartment in the Soviet Union actually costs a worker only eight to 15 rubles.

Have the Soviets been able to reverse the old adage "You get only what you pay for?" Not by a long shot. The difference comes out of the national economy in the form of consumer goods that aren't there, shoddy workmanship and shortages in housing itself.

Is this efficiency—pushing one sector at the expense of unmentioned others, and claiming great economic progress to boot? We doubt it. We also doubt that the Soviet economy is free of unemployment, misallocation and the like. By capitalist standards, there is chronic underproduction, unproductive investment and personal hardships that cannot be measured in dollars and rubles.

Neither system can achieve progress without incurring costs. From where we sit, the inefficiencies of the Soviet system cost far more than anything that is to be witnessed on the American scene.—H. B.

LETTERS TO THE EDITOR

CHALLENGE *invites your comments. Address letters to* CHALLENGE, *475 Fifth Avenue, New York 17, N. Y.*

EDUCATIONAL CONTROVERSY

• The article by Mortimer Smith in your October issue should be studied seriously, but not taken seriously.

Mr. Smith declares that children in our public schools are taught to read without training in phonetics and he gives some illustrations of the method supposedly used. But if he were as "precise" and "accurate" as he would like our children to be, he would have reported that there is not a single system of reading instruction in general use today that does not include phonetic instruction.

He would also have to report that the teaching of word clues goes far beyond that superficial method presented in his article, and that we would search in vain if we tried to find a teacher who used word clues as the sole method for all reading instruction. He would have to point out that there are many kinds of "clues" taught—e.g., looking for familiar elements in new words, or using the context as a clue in determining which of several meanings of a word is appropriate in a specific case. The use of context "clues" is required in many cases for determining pronunciation as well; the word *lead,* for example, can be pronounced *leed* or *led* and no amount of phonetic analysis alone will tell which is appropriate.

Since there are other skills than phonetic analysis to be taught in reading, Mr. Smith would have to declare himself. Does he advocate a reading program that consists solely of phonics instruction? If so, how would these other skills be developed? If not, what portion of the instruction program would be devoted to phonetic instruction and what portion to the other skills? Reading experts have not been as shy as Mr. Smith about giving specific answers to these questions. (I recommend William S. Gray's book, *On Their Own in Reading,* for your readers and for Mr. Smith.)

Mr. Smith also implies that there is *one* correct way of writing and speaking. But not even those masters of the language mentioned by Mr. Smith have paid much heed to the recommendations of the purists. We find that these masters of the language consistently split infinitives, used *shall* and *will* interchangeably, used adverbs without adding the *ly* ending, were unconcerned about subject-verb agreement, used *like* where Mr. Smith would use only *as,* and quite generally created havoc with the language from the grammarian's view.

Yet Mr. Smith, while recommending that we expose children to the works of these masters, also insists that we teach writing and speaking by using a formal approach to grammar. There is a glaring inconsistency here. Mr. Smith does admit, however, that the authorities in this field do not support his views.

Mr. Smith also claims that in some American state universities, almost 50 per cent of the entering freshmen fail the examination in basic English. This use of the terms *some* and *almost* is out of place in writing that strives for precision. Even the term "basic English examination" does not tell us whether this is a valid and reliable examination or a conglomeration of isolated grammatical "facts."

In one place, Mr. Smith recommends that we use formalized grammar for teaching language usage. Yet, later, he recommends "writing, writing, writing" as a cure for our ills. He does not point out that the formal approach means "diagraming, diagraming, diagraming" and "parsing, parsing, parsing" to the almost complete exclusion of writing, writing, writing.

When we apply his recommendations for precision and accuracy to Mr. Smith's own writing, we see that he has failed his own literacy test.

ALBERT J. TAYLOR
Administrative Principal
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Columbus, N.J.

JAPANESE VIEW

• On behalf of the Fuji Bank Ltd., I should like to express our interest in the article, "Exports—Lifeblood of Japan," by Wallace Higgins in your October, 1961 issue. We in the Japanese banking field are always gratified when an American publication undertakes a serious evaluation of Japan's great achievements in the field of economic recovery and of the problems facing our country today.

As the only non-Western nation to achieve a modern, industrialized society, Japan is beginning to participate more actively in the affairs of the free world. But for this participation to be fruitful, there must be a greater understanding in the United States of some of Japan's problems and, conversely, in Japan of American viewpoints. Since the opening of its New York Agency in 1956, the Fuji Bank has been engaged in assisting American businessmen interested in Japan as well as our own business and financial community.

We consider that you have rendered a valuable service in advancing the understanding of American readers in an important area of international economics, and we look forward to further discussions in future issues.

RIKURO TAKAHASHI
The Fuji Bank Ltd.
New York, N.Y.

INJUSTICE UNDER LAW

• I read with great interest—and alarm—the reprint of Professor Mueller's article on absolute criminal liability [October, 1961] which appeared in *The Wall Street Journal* of October 23.

In publishing this article, I think your magazine has performed an invaluable service; and I can only hope that it is brought to the attention of the responsible parties in both houses of Congress.

G. C. WIEGAND
Professor of Economics
Southern Illinois University
Carbondale, Ill.

LATIN AMERICAN AID

• Charles Morrow Wilson's article, "Are We Losing Latin America?" [November, 1961] was very provocative.

I wonder, though, about one of his concluding comments: ". . . at Punta del Este the assembled nations pledged their faith in free enterprise as the means of improving their standard of living." I think it likely that many of these nations were simply pledging their faith in *aid.* The most we can hope is that faith in free enterprise will *follow* the wise investment of the aid funds.

JOSEPH CLARK
Baltimore, Md.

COMPLIMENT FROM CANADA

• I find the contents of CHALLENGE timely and interesting, and it certainly stimulates thinking, which possibly is the greatest service that a "business" magazine could offer.

W. A. LUNDRIGAN
Cardston, Alberta

Challenge
THE MAGAZINE OF ECONOMIC AFFAIRS
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INDUSTRIAL GIANTS OF TOMORROW

by DEXTER M. KEEZER and MARGARET K. MATULIS

► *How will the industrial structure of the United States change in the years ahead and how will these changes affect the corporate management of our large industries? Dexter M. Keezer and Margaret K. Matulis of the McGraw-Hill Economics Dept. attempt some prognostications on this question for the decade ahead. They outline the changes that have taken place over the past 50 years and indicate the present trends which are likely to be strengthened in the future. From their analysis emerges a picture of the kinds of companies that will be the industrial leaders of tomorrow.*

WE ALL KNOW that, barring unforeseen developments, the U.S. will have a far bigger economy a decade hence than it has now. Most of the projections assume that in 10 years our economy will be half again as large as it is today.

But will the big boys of industry —steel and auto makers, for example —be as big *relatively* as they are now? Or will Johnny-come-latelys have elbowed them into lesser places? What possible changes can we expect in the industrial structure of the United States and the corporate management controlling it? With properly humble awareness of all the pitfalls involved, we would like to attempt some useful long-range economic forecasting on these questions.

First, let us consider the broad industrial structure. Sure the automobile and steel industries will still be big—bigger than they are now. But, relatively speaking, they will be smaller. Challenging their leadership will be what some people call the electronics industry, and what others insist isn't an industry at all but a set of manufacturing operations and services which cuts across the whole gamut of industrial activity. Other industries moving up toward gigantic proportions will be those concerned with space exploration, computer and data processing, atomic fuel, petrochemicals, plastics, prefabricated housing and recreational products.

A decade ago the electronics "industry" was in the pigmy class compared with steel and autos. In 1952 total sales of electronic equipment—including military supplies as well as consumer products—came to $4.2 billion. Last year, in contrast, sales of electronic goods amounted to over $10 billion. This clearly means that, if its rate of growth continues, the electronics industry will soon be competing in size with steel and autos—whose 1960 sales were $16 billion and $12 billion respectively.

THE PROBLEMS of fitting the pattern of industrial growth over the years ahead into tidy new categories can be seen the minute we begin to examine the so-called "space industry." If it properly can be called an industry, it is on the way to becoming one of our industrial giants.

Actually, rather than being anything in the way of even a loosely knit industry, as that term is commonly conceived, the "space industry" is the industrial end of a program almost as limitless as space itself. Within a few years the federal government will be spending about $5 billion a year on its program of space exploration. Call it an industry, an industrial function or a range of industrial operations, as you prefer, a tremendous new range of industrial development and production will eventually come out of our space program.

Space technology has already produced over 3,200 distinct products. They have come from the 5,000 companies now engaged in space and missile work. And many more related products will be produced in the future. The fields of communications and weather forecasting, in particular, promise early returns. According to David Sarnoff, Chairman of the Board of R.C.A., we will have a world-wide telecommunications network within the next decade.

New space materials are already being adapted to industrial use. "Cermets," which combine ceramic with a metal and the exotic alloys—molybdenum, tungsten, tantalum, nickel and carbon—were developed to withstand high temperatures and are being used for turbine blades, chemical retorts and domestic heating equipment. Space technology has also produced lightweight materials such as glass filaments imbedded in plastic which are being used for aircraft structures, boats, house trailers, wall panels, etc.

Aircraft companies, which emerged as industrial giants during World War II, will be the biggest components of the aerospace industry in the years ahead. But, clearly, other related companies will gain in importance; some will be old, some will be new and some will be turning out products undreamed of today.

OTHER INDUSTRIES will play an increasingly important role in the economy a decade hence. The petrochemicals industry is the fastest growing segment of the chemicals industry. Over 3,000 different petrochemical products are now being produced. They are used in everything from rubber and plastics to drugs and foodstuffs. Last year industry sales amounted to $7 billion and accounted for about 30 per cent of the output of the chemicals industry. Within the next 15 years petrochemicals may account for as much as 50 per cent of the production of the chemicals industry.

Plastics, which are derived from petrochemicals, represent a virtually untapped field. They are making inroads into the building materials field despite archaic building codes which limit their use. Some foresee that plastics will replace a major part of such building materials as stone, wood, steel and cement.

As these and other industries grow, power consumption will increase accordingly. The amount of power used both in the factory and in the home in the decade ahead will nearly double, and new power installations will increasingly utilize atomic fuel. Atomic plants are expected to prove themselves both economical and workable by 1965, and from then on they will carry a bigger share of each year's new capacity.

Productivity will continue to increase and will make a shorter workweek possible. And as more leisure time becomes available to the American worker, a greater proportion of his income will be spent in travel and recreation.

While these and other industries can look forward to a decade of unparalleled growth, a whole sector of industry concerned with making consumer goods will be losing ground relative to the production of services. Consumers are now spending four times more for services than industry is spending for new plant and equipment. Some of this growth has been at the expense of the consumer goods industry. In 1953 the average consumer spent 65 cents out of a dollar for goods, 35 cents for services. In 1960 the share for goods had declined to 60 cents and the share for services had risen to 40 cents.

10 LARGEST MANUFACTURING COMPANIES IN U.S., 1909-60
(based on assets)

COMPANY	1909	1919	1929	1935	1948	1960
Amalgamated Copper	6	—	—	—	—	—
American Sugar Refining	10	—	—	—	—	—
American Tobacco	3	—	—	—	—	—
Anaconda Copper	—	—	8	8	—	—
Armour	9	3	—	—	—	—
Bethlehem Steel	—	6	5	7	—	—
Central Leather	7	—	—	—	—	—
Du Pont	—	—	—	9	8	8
Ford	—	7	6	6	10	4
General Electric	—	—	—	—	9	—
General Motors	—	5	3	3	2	2
Gulf Oil	—	—	—	—	7	5
International Harvester	5	—	—	—	—	—
Int'l Mercantile Marine	4	—	—	—	—	—
Midvale Steel & Ordinance	—	10	—	—	—	—
Pullman	8	—	—	—	—	—
Standard Oil*	2	—	—	—	—	—
Standard Oil (Calif.)	—	—	10	10	—	10
Standard Oil (Ind.)	—	—	4	5	4	9
Standard Oil (N.J.)	—	2	2	1	1	1
Socony Mobil (Standard Oil of N.Y.)	—	9	7	4	5	7
Swift	—	4	—	—	—	—
Texaco	—	—	9	—	6	6
U.S. Rubber	—	8	—	—	—	—
U.S. Steel	1	1	1	2	3	3

RANK

*Prior to U.S. Supreme Court decision of 1911

A LARGE NUMBER of very small firms now provide most consumer services. In order to grow these firms must either merge with similar concerns or integrate their services with the products that perform those services. The latter trend seems more likely to predominate. The dry cleaning business provides an example of at least one area in which this has already happened.

Last year there was only one manufacturer of coin-operated dry cleaning equipment. There are now 23. But the growth in the number of companies is perhaps not so significant as the fact that at least one manufacturer not only produces the equipment but actually sets up dry cleaning establishments to be sold to investors. The same sort of thing is happening in other areas. Restaurants, for example, have moved into the frozen foods business, apparel and shoe manufacturers into retailing. This kind of integration requires a large volume of production and distribution. It also requires more capital and more equipment.

When the record is examined 10 years hence, these growth areas will clearly have made their impact on the economy. The electronics industry, propelled by the tremendous expansion of research and development in the past decade, will move ahead toward a top position. The federally financed space program will spawn thousands of industrial products. Chemistry will provide new uses for petrochemicals and plastics. In the consumer area there will be a continuous shift toward more services and more recreational activities to be grouped, no doubt, in new and relatively much larger managerial units.

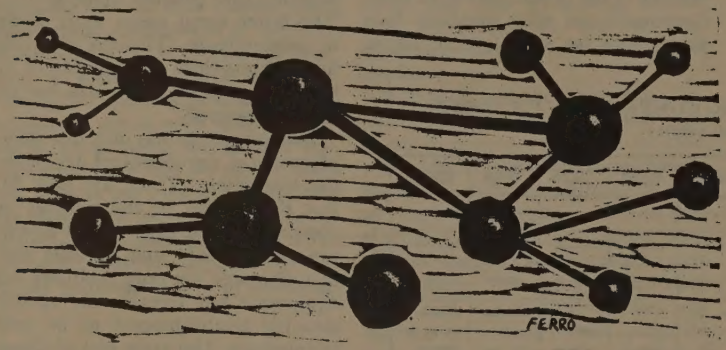
What about the corporate hierarchy that will preside over this industrial structure? A comparison between the top industrial firms of 1909 and those of today strikingly underlines a proposition set forth by

Heraclitus over 2,000 years ago: "Nothing is permanent except change." Of the top 100 industrial firms of 50 years ago only 25 are still on the list. Twenty-three others are still included in the list of the top 500 companies; nine have disappeared even from that list and 40 have disappeared entirely—39 through merger or liquidation and one through dissolution. The remaining three are now considered to be service companies rather than industrial firms.

At the turn of the century the biggest companies were centered in steel, food and nonferrous metals. These have now been replaced in importance by autos, aircraft, electrical apparatus and petroleum. In 1909 the steel companies accounted for over 30 per cent of the $8.2 billion block of assets held by the 100 largest industrials. By 1960 their share had dropped to 10 per cent. Second on the list in 1909 was the nonferrous industry (mostly copper) accounting for 9.4 per cent of all assets. It now holds only four per cent of the total. While the food industry represented 8.2 per cent of the total in 1909, it now represents only three per cent. These industries have been superceded by petroleum which now holds 30 per cent of the assets of the 100 largest industrials and by chemicals which holds eight per cent.

This is not to say that companies who have remained on the list of the top 100 industrials have not grown. In 1909 the 100 largest firms held $8.2 billion in assets. By 1948 the amount had grown to $49.1 billion and by 1960 the figure had reached $132 billion. Standard Oil Company of New Jersey, for example, now the largest industrial firm in the U.S., has assets amounting to $10.1 billion. In 1909, before it was split up by the U.S. Supreme Court for violating the Sherman Antitrust Act, Standard Oil held only $371 million in assets. In 1909 only four industrial corporations had assets of $200 million or more; in 1960, 31 corporations had assets of $1 billion or more.

Why did some companies grow while others lost ground? At the turn of the century corporations grew into giants mostly through mergers or acquisitions. In 1899 alone, 1,028 firms disappeared through merger. This merger wave produced U.S. Steel, American Tobacco, International Harvester, Du Pont, Corn Products, Anaconda, and American Smelting and Refining to name a few. Such mergers brought together huge pools of resources for mass production, such as another merger wave is doing today.



But maintaining a high rate of growth requires more than merger activity. Those firms that have remained on top are the ones that have expanded into new and growing industries. Few that have limited production to their traditional products have increased their stature in the family of the 100 largest firms. For example, among the giants of 50 years ago were sugar and leather companies. But none of these firms has diversified to any significant extent and consequently they have either gone out of business completely or have dropped in rank below the 500 largest. At the other extreme is Du Pont, originally a partnership which produced explosives. Today Du Pont is a corporation which has 11 separate divisions making more than 8,000 products ranging from synthetic fibers to atomic energy.

New industries and new products largely grow out of research and innovation. No company is so big that it can ignore the competitive pressure to innovate. Some giants fell behind because their management dragged their feet on research. The old locomotive companies, for example, were shaken out of their lethargy when General Motors introduced diesel engines.

Companies were not particularly concerned with research at the turn of the century. One reason was the uncertainty of the results. Even today research often brings surprises, but procedural guidelines have been worked out which lead to more reliable results. And because firms are bigger, they can diversify more easily when research yields the unexpected.

Wars as well as management foresight have contributed to the growth of research. The first American research laboratory in private industry was established by General Electric in 1900. By World War I there were perhaps 100 laboratories, mainly in the fields of electricity and chemistry. By the end of the war the number had tripled. Most of these war-born laboratories continued in peacetime since their organization costs had already been undertaken and the success of wartime research had made them confident of the value of research. World War II and the Korean war witnessed a repetition of this phenomenon.

But if wars made organized research increase in spurts, peacetime competition among firms and the pressure of rising costs contributed to its more even growth. By 1970, if these trends persist, research and development expenditures will come to $22 billion annually; another $6 billion will be invested annually in research equipment.

While the larger firms are more likely to do research than their smaller competitors, the smaller firms that do research spend proportionately as much as the larger companies and sometimes more. For example, in three industries—chemicals, machinery and electrical equipment—firms engaged in research employing between 50 and 499 workers spend more on research as a per cent

of their total assets than do the bigger firms doing research. In professional and scientific instruments, however, firms employing from 500 to 999 employees did more research, in proportion to their assets, than smaller firms.

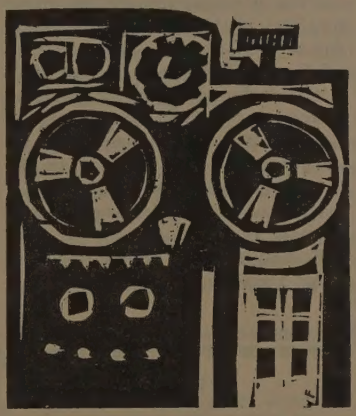
WILL THE leading corporations keep on growing in relation to the growth of the economy as a whole? As financial units they well may. The assets of the 100 largest industrial corporations increased by 60 per cent in the last 50 years. An increase of similar magnitude is not unlikely in the years ahead. And the computer enthusiasts say that these companies can also keep on growing indefinitely as production units. They say we are learning how to manage larger and larger aggregations of workers, machines and materials.

But many rapidly expanding industries do not lend themselves to larger and larger production units beyond a certain point. Space exploration, for example, because it cuts across established fields, will develop into a more highly complex industry than ever before—so complicated that companies working together may not even speak the same technical language. One company is now working in about 60 different technological areas compared with 25 only five years ago. At the top will be a giant firm acting as coordinator and interpreter for thousands of subcontractors and specialists. Right now, more than 5,000 companies will be needed for the development of the Apollo missile, whose prime contractor has not yet been named.

Also there may be limits to the capacity of managers to control effectively the production and sales operations of a far-flung industrial empire. One manifestation of the possibility has been the failure of the top managements of some very large corporations to keep in touch with the pricing procedures of their divisions. It has become painfully apparent that these procedures were being carried out without regard for federal laws.

ON THE OTHER SIDE of the coin, it is vigorously argued that remarkable success has been achieved by the use of computers to centralize sprawling masses of information about managerial problems. Thus, the capacity of corporate management to handle their problems effectively is increasing. Computer technology is making it possible for the growth of individual corporations, even of those in the gargantuan league, to at least keep pace with the general growth of the economy.

There are also many forces, somewhat extraneous to the production process, which create pressures to take advantage of existing growth potential. Increasingly, both inside and outside of the corporation, there are pressures which are tending to turn the corporation into a broadly based cultural institution. The business of making a profit is still a central but by no means an all-controlling consideration. One striking manifestation of the tendency is found in the fact that this year U.S. business firms and company-controlled foundations will make contributions of over $400 million to educational and welfare enterprises. This is nearly eight times the contribution they made a decade ago—an impressive growth even when the shrinkage of the dollar is taken into account. Such growth is something of an index of the development of the business corporation as a civic institution.



The biggest corporations will also tend to get bigger as a result of the increasing pressure to extend overseas operations. In fact, some seers contend that there will be few if any in the first rank of American corporations 15 years hence which will not be conducting a large proportion of their operations outside of the U.S.A. This, of course, will increase the size of the corporations and add to the complexity of managing them.

IN THE last analysis, however, the corporation, in spite of legal fiction about its personality, is an aggregation of people. And, as the human animal is notably unpredictable, so is it possible that the human element in management and the managed will react against the trend toward larger and larger production units and will clamp a lid on the growth of the giant corporations in the years ahead. There isn't much of a tendency in this direction at present, but it could be argued that a revolt against giantism all along the line—in the government, in organized labor, in business management—is possible. This is simply one of a whole array of possibilities which adds to the hazards of blueprinting the managerial and corporate structure of the future.

However, the general direction that industrial growth will take over the decade ahead is reasonably clear. There will be more and more sophisticated products and their selling prices will include an increasing component of service; the shift to services will continue on down the line. The most dramatic harbinger of things to come is provided by the "space industry" and the rush to get to the moon.

The managerial structure of the years ahead is less clear. Enormous amounts of speculative risk capital will be required on the industrial frontier, mostly for purposes of research and development. In one way or another, the government will exercise an imposing measure of control. In the private sector, it is problematical whether or not corporate growth will manage to keep pace with industrial growth. Much depends on how far the human participants in industry will be disposed to let computers and related equipment be their managerial monitors. However, a look backward at the constant reshuffling of the leaders at the head of the corporate parade seems to make one thing quite sure. Change rather than stability will be the pattern during the decade ahead. ■

When Is a Plan NOT a Plan?

by BERTRAM M. GROSS

► *How much government economic planning is appropriate in a private enterprise economy? While it is difficult to give a precise answer, Bertram M. Gross feels that a certain amount of national planning is essential if we are to successfully compete with the Soviets. He points out that we do more planning than we like to admit—although we call it something else. A Professor of Administration at Syracuse University, he was formerly Executive Secretary to the President's Council of Economic Advisers.*

GOVERNMENT ECONOMIC PLANNING has long been a politically explosive subject in the United States. It has also been a paradoxical one.

American government leaders are generally reluctant to talk openly about the role of planning in the attainment of a more rapid rate of economic growth. At the same time, they vigorously urge the governments of aid-receiving countries to promote economic growth through long-range, large-scale and comprehensive development plans. They also send abroad scores of "experts" who, despite their lack of sustained and significant experience in this field, are expected to advise other governments on how to develop and carry out national economic plans. The Russians, in sharp contrast—despite their sustained experience with central economic planning—tend to stay away from the subject in their foreign aid programs and concentrate on single projects with large propaganda impact.

Under these circumstances there is a crying need for a realistic analysis of the role of planning in a private enterprise economy and a frank estimate of how much planning we do —without calling it planning.

Any such effort to get the facts is confronted by almost overwhelming obstacles. It is difficult to penetrate the smokescreens laid down by official secrecy, government propaganda and the recondite talk, tall talk and double talk of many experts. It is even more difficult to escape being touched by the dead hand of narrow and outmoded concepts of planning, administration and economics.

THE THOUGHTS that follow are a partial, across-the-board summary of my reflections on about 20 years of experience with various types of planning. Consequently, they might be called "confessions." This experience included a central role in drafting the War Mobilization and Reconversion Act of 1944, the Employment Act of 1946, and the National Capital Regional Planning Act of 1952. It also included service as Executive Secretary to President Truman's Council of Economic Advisers, postwar reconstruction adviser to the U.N. and the Republic of South Korea, and economic adviser to the government of Israel.

By calling these thoughts confessions, I am not implying that I am "telling all." I never knew "all" about the planning activities in which I was engaged, and will probably never succeed in solving many mysteries that still puzzle me. Nor shall I tell all that I *do* know. I would not want to cause undue injury to identifiable people in high position. Nor is this the proper context for a detailed analysis. Here I am merely trying to cut through the fog of ambiguity, deception and half-truth that has enveloped so many discussions of this controversial subject. In so doing, I shall presume to "confess" not only in my own name but also on behalf of unnamed scores of colleagues in several countries.

MY FIRST CONFESSION is that planners have often engaged in various forms of word juggling.

One form is to disguise planning activities under a variety of euphemisms. Thus, when "plan" may serve as a red flag to incite the opposition of antiplanners, liberal use is made of such terms as "program," "coordination" and "policy." In drafting the original Full Employment Bill, the

THE "CONSCIOUSLY DIRECTED" ECONOMY

PLANNING OWES its popularity largely to the fact that everybody desires, of course, that we should handle our common problems as rationally as possible. . . . An economist, whose whole task is the study of how men actually do and how they might plan their affairs, is the last person who could object to planning in this general sense. . . . What our planners demand is a central direction of all economic activity according to a single plan, laying down how the resources of society should be "consciously directed" to serve particular ends in a definite way. . . .

Once the communal sector, in which the state controls all the means, exceeds a certain proportion of the whole, the effects of its actions dominate the whole system. Although the state controls directly the use of only a large part of the available resources, the effects of its decisions on the remaining part of the economic system become so great that indirectly it controls almost everything.

F. A. HAYEK in *The Road to Serfdom*

term "national budget" was used to refer to what was essentially the outlines of a national plan. The strength of this semantic twist was that it tended to capitalize on the conservative viewpoints associated with the economy aspect of government budgeting.

Subsequently, this term was watered down to "Economic Report of the President." Yet the substance of the Economic Report of the President was clearly defined to include the essential outlines of peacetime national economic planning in a democracy: the spelling out of specific economic goals together with specific actions designed to attain such goals. True, the edge was taken off the commitment to use the government's spending powers. But this was counterbalanced by the declaration of policy commiting the government to "utilize and coordinate all its powers, plans, functions and resources" to promote maximum employment, production and purchasing power.

In both versions, the President's role was essentially defined as that of Planner-in-Chief, but use of the word "planning" was studiously avoided.

Another popular form of word juggling is to go to the other extreme and use the word "plan" in a way that gives a false impression concerning what is really going on. Many a "planning office" in government departments (and in business corporations as well) is limited to collecting or analyzing statistics. The word "planning" merely helps the office sound more important. Many "planning boards" and "planning commissions" are mainly concerned with *formulating* and *proposing* plans. Yet the use of the word "plan" in their title is clearly much more narrow than in the concept of "planned economic development" or "planned land use." Its use in such a way tends to exaggerate the responsibility of the technicians and advisers. It tends to detract attention from the no less significant (and possibly far more significant) planning responsibilities of those in the central positions of executive authority.

It is entirely possible, however, that we may soon become more mature in our handling of these symbols. The conservative opposition to national planning is not as strong as it used to be. More leaders are beginning to understand the need for democratic forms of economic planning in our efforts to put men on the moon, catch up in outer space, stay ahead in productivity, help other countries to develop—and to do all the other things necessary for survival in a dangerous world. People are beginning to talk a little more openly about national planning without using the kind of weasel language that Victorians had to use when mentioning sex.

There is also hope that as we become a little more sophisticated we shall not mistake the label for the product and the structure for the process. Let us not think that by setting up some agency that produces "plans" or that even by boldly putting the word "planning" in its name, we have established a planning process. Let us recognize that under our system of government the President must be the Planner-in-Chief, and that Congress and all executive agencies must play vital roles in the national planning process.

My second confession is that, despite our fondness for abstract language, planners always deal with the behavior of human beings.

The abstract language usually sounds inhuman, or at least nonhuman. We set our goals in terms of income, output, price levels and resource development. We discuss our methods in terms of investment, money flows, technology and policies. People creep in directly only when we talk about such things as employment, training and other aspects of "human resources."

Yet all of these terms are ways of talking about some form of human behavior. Anything we say about the level of investment refers to the behavior of identifiable people as investors and consumers. Price indices merely reflect the buying and selling behavior of various people. A plan is merely a way of talking about the desired future behavior of individuals and groups.

More important, a plan is a way of talking about the purposes of the planners themselves. They too are human beings. The "long-range goals" or the "requirements" are merely a way of talking about the aims of the planners. The "means" are the planner's aims for the more immediate actions of other people. The size of the gap between the aims of the planners and the aims of the "planned" will have a major bearing on the "feasibility" of the plan itself and of any instruments of coercion or more polite influence that may be used to bridge the gap.

As our planning efforts become more mature, therefore, we may expect far greater attention by planners to human motives, needs and purposes, and to impersonal relations, communication and influence.

My third confession is that planners are always involved in some form of power politics.

This can be called a confession only because of the rather energetic efforts often made to present plan-

PLANNING IS INDISPENSABLE

WE BELIEVE that long-range planning is a process which operates democratically, provides real cooperation between the public and private parts of our society, poses no threat to our basic freedoms and produces results superior to the products of totalitarian planning. This is a planning process which an increasing number of democratic countries have begun to adopt in seeking solutions to their problems. It would be one of the great tragedies of civilization if this country failed to realize the potentialities of long-range planning because it failed to distinguish between planning made in the U.S.A. and planning that is made in the U.S.S.R.

We are living in an age fraught with danger. Without long-range planning we are like a ship without a rudder, drifting with the current. Long-range planning requires development of proper techniques and administrative mechanisms. It also requires imagination to foresee future needs, courage to face up to obstacles, willingness to make necessary sacrifices and flexibility to plan alternative courses of action. . . .

NATIONAL PLANNING ASSOCIATION

ning as a way of escaping the sordid world of politics and power. Thus Edwin Nourse, the first Chairman of the President's Council of Economic Advisers, called for "economic scientists in the Council posts" and "economic engineers (of varying degrees of professional competence) in the person of the President and members of the Joint Committee. . . ." Many others have seen in planning a means of imposing scientific solutions upon problems that would otherwise be dealt with through the push-and-pull of group pressures and politics.

Yet, as Nourse himself frankly recognized, the first Council operated in a highly political atmosphere. For this he tended to blame the President and his fellow Council members. It is quite possible, however, that the major difference between Nourse and Leon Keyserling (his major opponent on the Council) was in the substantive content of their political outlook. As a close observer of their activities for many years, I must confess that I could never detect any significant difference in the degree to which their economic analyses were attuned to concepts of political exigencies and aspirations.

This is not stated as a criticism of either of them. In a democratic society there are always competing plans and competing planners. Thus planners—or policy advisers—who expect to deal with national plans of any significance must take sides. In some way or other they must enter —and play a role in—the process of power politics. In part, this is done by the adjustment of planning work to perceptions of what is politically feasible. In fact, an easy reputation for political sagacity is often attained by those who specialized in counseling quick adjustment to the anticipated pressures of major power groups. More constructive participation is provided by those who associate the very formulation of plans with the process of organizing the multisided complex of coalition and consensus without which no plan can be carried out. In this sense national planning is a way of mobilizing social power for constructive purposes.

Here is where many economists frequently fall on their faces. They often see two artificial stages. In the first, the economic experts fashion a plan. In the second, the politicians and publicists sell it and get it acted upon—with whatever compromises are dictated by political necessities. They thus neglect the role of politicians and many separate groups, both public and private, in fashioning the plan in the first instance. They minimize the equally important role of economists and many other experts and technicians in the continuing process of compromise and adjustment.

Public administration specialists and political scientists may do even worse than the economists. In their effort to integrate administration with economics, they often fall prey to the most superficial forms of gadgetry. By concentrating on one or another pet organizational structure, or one or another device for transferring formal authority to planners and executives, they detract attention from the more fundamental strategies and tactics of mobilizing power. By becoming ends in themselves, structure and procedure lose their significance as part of the shifting strategies and tactics of power.

What is worse, the experts in both economics and public administration often operate in terms of an unrealistic model of the planning process. This might be termed the "central omnipotence model." According to this model, both authority and power are centralized at some high hierarchic level and then "delegated" or "decentralized" to other points. This unrealistic model stems from Michels' "iron law of oligarchy."

It overlooks the equally strong laws of bureaucracy, specialization and human motivation, all of which tend to disperse power within large organizations and among the many separate groups that comprise a society. It represents a capitulation to the propaganda of dictators who use talk of monolithic unity as an instrument (along with terror) for helping handle their deep, internal conflicts.

This model also fails to recognize that in a large organization or a complex society central power can be built up only by bringing together separate sources of power, as in the case of a national grid based on a network of separate thermal, hydro and nuclear power stations. And it prevents us from recognizing that national planning (in the sense of getting action rather than merely drawing pretty pictures) is a process of bringing together through integration and compromise the separate and divergent plans of untold numbers of public and private organizations.

Another major fact about planning is that planners never complete a plan. A typical complaint in the controlled press of the U.S.S.R. is that planners do not get their plans in on time. But this happens throughout the world. One of the laws of planning might be stated as follows: "Planners never succeed in living up to their own planned schedule for completing a plan by a certain date."

A corollary to this law might be phrased as follows: "But this need never prevent a planning document from being presented at any time."

If this seems contradictory, the contradiction is resolved by the fact that any planning document is *always* incomplete.

Under the Employment Act, the President must present his Economic Report (read "quasi-planning document") to the Congress at the beginning of every session. From the very beginning we were better than the Russians. We always met the deadline. We always got drafts to the President, the White House staff and the Cabinet members before Christmas. By dint of burning the midnight oil the document was always ready by the first week in January. But we never resolved all the many conflicts and ambiguities on objectives and methods. The process of thought, negotiation and integration was always rudely interrupted by the necessities of publishing a document.

In preparing our December analyses of trends in employment, production and purchasing power, we always yearned for just a little more time. "If only we had until April," rang the typical corridor comment, "then we'd know." But in April, we didn't know. We had to wait a few more months. Then we looked expectantly to the fall. And in the fall we expected revelation in December.

As I look back upon this picture more carefully, I find that we also did not know so much about the past. Our information was rough and shaky. And when we did know *what* had happened, we rarely knew *why*. When we knew both *what* and *why*, the situation would suddenly change. We would be left in the position of either stubbornly sticking to outmoded guns or else starting all over again.

All this is a half-formed type of activity which might better be called "quasi-planning." Is the picture much different in countries with full-blooded national planning? I suspect not. There is reason to believe that whenever the planners try to keep up with more details, they may well fall even further behind. India's Five Year Plan, upon careful examination, turns out to be a skeleton framework rather than anything approaching a complete blueprint. And for all the Soviet publicity on their Five Year Plans there is reason to believe that the plans are full of gaps that the planners have long since given up hope of filling.

Another important proposition is that planners (including both myself and others who have written much more on the subject) do not know very much about planning.

When the Bolsheviks took over in Russia, they knew nothing about planning. The socialist and Communist dreams of a planned economy were devoid of substantive content. In all the tons of Marxist literature, the emphasis was placed almost exclusively on past history and the future "overthrow of capitalism." Absolutely nothing of significance was said about what to do when capitalism was overthrown. Despite public lip service to Marxist divinities, the Russian Bolsheviks approached the gigantic difficulties of national economic planning with no theory to guide them. The only new techniques they brought to bear were those of "enterprise planning." These were based on Frederick Taylor's concept of "scientific management," which they enthusiastically borrowed from America. Since then, their approach has been the pragmatic, empiricism of "muddlers through." What they have learned, they have learned through gigantic trials and gigantic errors. Nor have they yet—for lack of a free and creative approach to social and economic analysis—been able to bring together their large amount of intuitional learning into an organized body of knowledge.

The Western countries stand at the other end of the spectrum. Here there have been important innovations and steady intellectual progress in concepts and techniques. These range from the more detailed tools of national accounting, input-output analysis, cybernetics, game theory and information theory to broader theories and hypotheses concerning motivation, personality, status, role, aspiration level, group conflict, influence and power. But with only minor expectations this stream of creative thought has been abstracted from the exigencies of national action. Many of the tools already tentatively developed are so far in advance of the actual practice of national planning that it has been impossible to test and perfect them. The crowning irony now appears in recent Russian action (a follow-up on their previous import of Taylorism) to put American input-output techniques to use for the first time at the very heart of their national planning computations.

It may well be that a new race will take place in the coming decade, a race to push back the frontiers of ignorance as to the nature of national planning. The Russians will advance in this race only to the extent that they can use new concepts and theories in capitalizing upon their vast experience. The Western countries will move forward only to the extent that their conceptual and theoretical creativity can be linked with a broadening area of sustained experience.

Finally, let it be recognized that national planning is an exciting activity.

The very scope of national planning for the growth of an economy is rather breath-taking. The national planner can see his entire country as from an outer space satellite on a clear day. He can find untold opportunities for exercising initiative and influence—although this sometimes leads to delusions of grandeur.

The necessity of adjusting plans to cope with the unpredicted or the unpredictable is also a thrilling challenge to man's creative abilities. Plans are made to be changed—or, rather, to have something that can be changed when the occasion arises. The pleasures of maneuver and adjustment are denied only to those petty souls who have a compulsive fixation for adhering until the bitter end to every detail of a plan.

Above all, national planning for the growth of an economy can be one of mankind's greatest ventures. True, it can be used by those who would lead us on the road to serfdom, crude materialism and spiritual degradation. But it cannot be ignored by those who are truly interested in building the economic foundations of enlarged human freedom and providing mankind with full opportunities for self-fulfillment, creativity and growth. Its proper development can provide for ever-wider participation in this exhilarating venture. ■

A new view of installment buying

CONSUMERS— *Wasters or Investors?*

by GEORGE KATONA

► *Ordinarily, we think of the consumer as consuming. But certain consumer expenditures are "investments" in just as real a sense as are the capital outlays of business firms. Consumer expenditures have played an important role in achieving economic growth, and the government should encourage consumer investment as well as business investment. For only if our "private opulence" increases further can we hope to overcome public poverty. The question is not one or the other; it is both or none. So argues George Katona, program director of the Economic Behavior Program of the University of Michigan's Survey Research Center and author of* The Powerful Consumer.

"IN THE FIELD of economic and political philosophy there are not many who are influenced by new theories after they are 25 or 30 years of age, so that the ideas which civil servants and politicians . . . apply to current events are not likely to be the newest." So said John M. Keynes in *The General Theory of Employment, Interest and Money.*

In April, 1961 President Kennedy proposed to grant tax benefits to business firms investing money in new plants and equipment—in order to stimulate the expansion and growth of the economy. This proposal, which assumes that business investment is the only type of tangible investment that can stimulate our economic growth, is based on an idea which is not "of the newest." In our society today there are *three* forms of investment, and economic growth depends on all three. Besides business investment, there is consumer investment and, third, there is investment in human capital.

Today in America, and increasingly in the Western European countries as well, the money consumers spend on (or invest in) houses and home improvements, automobiles and household appliances exceeds in value the capital outlays of business firms. Thus, consumer investments have contributed greatly to economic growth during the postwar years.

The rate of consumer investment can exert a considerable influence on the business cycle. This is so because consumer expenditures do not depend only on the consumer's *ability* to buy, but also on his *willingness* to buy. And since we now know quite a bit about measuring consumer reactions, we should be able to better understand and predict economic fluctuations. However, the role of consumer investments is not yet fully understood by those who make economic policy.

To a certain extent, this lack of understanding can be related to our language habits. We ordinarily think of the consumer as "consuming" and we are under the impression that he spends his income at a fairly steady rate. Yet, today, a substantial proportion of consumer expenditures goes into houses, durable goods, vacation trips and other discretionary items. Since these items are not necessities, they are not purchased at any steady rate. Moreover, many consumer purchases are used over several years, just as business outlays for plant and machinery are used.

Tangible consumer expenditures also encourage rising productivity, again in a manner analogous to business capital outlays. For productivity increases depend, in part at least, on the material standards of the people; productivity also rises in a very real sense as the level of a people's education and health improve. In other words, investment in *human* capital is an important aspect of production.

Paramount among old ideas that linger on and impede the understanding of new developments is the association of consumer credit with usury. In the past, people borrowed when they were in distress, when illness, old age, bad harvests or unemployment—all beyond their power to avert—made it necessary for them to get help from others. Because creditors frequently used such circumstances for making big profits, consumers were admonished to abstain from borrowing whenever possible.

But if households borrow to invest, they are merely following the accepted practices of business firms. If an individual buys a house with mortgage credit, finances additions and improvements through an FHA loan, or purchases automobiles and large appliances on the installment plan, his behavior is not much different from that of a business firm which builds plants and purchases machinery on credit. In contrast to distress borrowing, making consumer investments on credit is a sign of prosperity and contributes to it.

Paying while using is not only a great convenience. Mortgage and installment debt also makes for discipline and careful budgeting. When a substantial proportion of income is used to repay debt incurred for important purposes, less money remains for splurging. Repayment of debt represents saving because our assets consist not only of money in the bank or securities, but also of our homes and durable goods. The notion that it is a good thing to save before one buys, but a bad thing to save after one has bought, is an interesting instance of cultural lag.

TECHNOLOGICAL innovation—which has made available such inventions as the automobile, the television set and the automatic washing machine—represents, of course, the first condition necessary for extensive consumer investments. The availability of credit represents a second condition. Most important has been a third condition, the substantial increase in the number of families in the middle and upper middle-income brackets. What has been called supernumerary income now accrues to a very large proportion of Ameri-

can families; 45 per cent of all family units now have an annual income between $6,000 and $15,000.

To compare the relative size of business and of consumer investments we may cite a few figures from the Commerce Department's compilations on the distribution of the gross national product. The expenditures on plant and equipment by nonfarm producers amounted to somewhat over $41 billion in 1960, a year when expenditures on durable goods by consumers totaled over $44 billion. Consumer durables expenditures had also exceeded business capital outlays in the preceding years.

Another relevant item is the $21 billion spent in 1960 on nonfarm residential construction. Of course, this figure includes apartment houses and thus may exaggerate somewhat the extent of consumer housing demand. On the other hand, the figure does not include expenditures for additions to and modernization or repair of homes, which are estimated at close to $10 billion a year.

The current value of business plant and machinery has been estimated at $350 billion. Automobiles and appliances owned by consumers are worth much less—a little over $200 billion after deducting depreciation. But the current market value of owner-occupied, one-family houses is between $350 billion and $400 billion. Today about 60 per cent of the more than 50 million nonfarm families live in houses they own, while in 1946 only 50 per cent of 38 million such families did so. These figures do not take into account the debt on possessions of consumers and business concerns. But mortgage as well as installment debt is being repaid at a fairly rapid rate; more than half of all home owners have no mortgage debt. The total amount outstanding, however, is rising as consumers are continually acquiring new possessions.

More important than total values are rates of growth. William Butler, Chief Economist of the Chase Manhattan Bank, has calculated that between 1920 and 1930 the net stock of consumer durables rose by three and one-half per cent per year per household in constant dollars. But from 1931 to 1945, during the Great Depression and World War II, the stock of consumer durables declined rather than grew! Then, from 1945 to 1956, Butler found the stock grew at a rate of six per cent per annum per household in constant dollars. This tremendous increase represents the greatest single factor bringing about postwar prosperity. During the past five years the growth rate shrank again to one per cent per year. The two recessions of 1958 and 1961 are reflected in this slow tempo of the expansion of consumer assets. A slightly faster growth rate would have assured full employment.

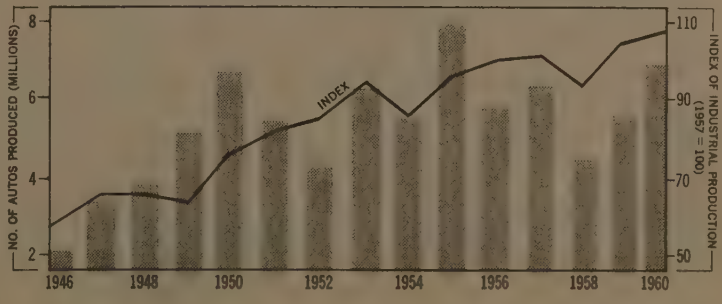
Consumer investments and business capital outlays are both discretionary. Fluctuations of discretionary expenditures do not depend on available money alone. If consumers' purchases of durables moved up as their income increased and declined as their income fell, and if business capital outlays followed profit trends, economic predictions and even countercyclical economic policy would be fairly simple. But discretionary expenditures are influenced by a willingness to buy, as well. Attitudes toward past progress and the current situation, as well as expectations regarding future developments, radically influence the timing and extent of consumer investment. In other words, consumer behavior may change independently of other economic magnitudes. But consumer behavior is neither capricious nor impossible to understand. Changes in consumer sentiment have proved to be measurable.

The tool used to study fluctuations in consumer sentiment is the sample interview survey. Addressed to a representative sample of consumers at intervals of three to six months and containing inquiries about past and expected personal financial conditions, the general economic outlook and market conditions, these interviews have provided advance indications of the major shifts in consumer investments over the past 10 years. The Attitude Index constructed by the University of Michigan's Survey Research Center indicated, for instance, consumer optimism as early as June, 1954, foreshadowing the sharp rise in automobile demand which occurred in the winter of 1954-55. In June, 1957 and May, 1960 survey measurements showed a decline in consumer confidence far in advance of the 1957-58 and 1960-61 recessions.

It also could be predicted in the fall of 1960 that the oncoming recession would be short and fairly mild. Long before the news about growing unemployment was widely circulated, the American consumer had grown cautious; but when the bad news came he did not become despondent or lose confidence in longer range trends. For most people, so the Survey Research Center found in the fall of 1960, the election of Kennedy and the intensification of the cold war were the important news at that time. The economic consequences of this news loomed larger than those of the news about recession and unemployment.

Recovery set in a few months ago; consumers' incomes increased and some of their confidence returned. But consumers are still cautious and an enduring upswing in consumer investments is not assured. The 1958 recession, with the 1960-61 recession coming hard on its heels, made everyone very aware of the problem of unemployment. People realize that we have not been able to reduce substantially a hard core of unem-

AUTO PRODUCTION AND INDEX OF INDUSTRIAL PRODUCTION, 1946-60



ployment. Thus, they feel that something is wrong and that the time is not ripe to embark on new ventures, such as buying a house.

THE THEORETICAL basis of the economic policy of the Kennedy Administration has been clearly stated by its Council of Economic Advisers. One problem the Council is concerned with is "the absence of reasonably full employment." This problem called for recovery measures early this year. The major measures cited by the Council were temporary unemployment compensation, aid to dependent children of the unemployed, and accelerated tax refunds and GI insurance dividends.

A second problem is the "inadequate growth rate" of our economy, which the Council attributes to "retardation of investment." "It is faster growth," the Council stated, "that is the primary objective of increased private investment in plant and equipment and increased public investment in human beings. Undertaken in a time of economic slack, such increases have the welcome added virtue of helping to promote recovery by swelling the demand for goods and services."

Clearly, the Council recognized only two forms of retarded investment. Business investment is one form, and the proposed tax benefits (which Congress did not accept) were the means by which these investments were to be stimulated. Investment in human capital is the other form. It is to be accelerated by a variety of health, educational and urban development measures. Consumer investment expenditures are conspicuous by their absence from the Council's argument.

The Council's statement was made in reply to criticism of the Administration's economic policies by Dr. Arthur F. Burns, former head of President Eisenhower's Council of Economic Advisers. Yet, in several respects, the present Council and Dr. Burns are in agreement. Dr. Burns stresses the need for "incentive to enterprise" and also neglects consumer investments. Yet he states that "the prosperity of a nation depends basically on the energy and skill with which people apply themselves to production." He then adds that "the success of governmental policies to spur our economic growth will depend primarily on how effective they are in increasing confidence in the economic future."

If it is true that people's confidence in their future spurs economic growth—if it is true, to quote Dr. Burns further, that "the amount of work that is done and the efficiency with which it is done" are the factors on which prosperity depends—then the crucial question concerns people's motivation. What motivates people to work harder and more efficiently? Recent research has given an answer to this question. People are willing to exert great effort if the effort helps them to achieve their own concrete goals—a better life for themselves and their children.

True, Americans recognize the necessity of working for the achievement of national goals. We grumble about high income taxes, but understand that national defense is necessary and expensive. Most of us also believe in paying for old age and unemployment insurance, as well as for schools and hospitals. But there is a psychological difference between money we *must* spend and expenditures we *like* to make.

The desire for more and better things is one of the most powerful incentives people have to work hard and to stimulate production, efficiency and economic growth. Economists teach that consumption is a function of income. Today, to a large extent, income is a function of expenditures; because we desire more and better things, wives return to work and husbands strive to earn more.

Evidence has been gathered recently in support of a second relevant psychological principle: when we feel that our goal is attainable, we exert greater effort. When the possibility of improving our standard of living appears doubtful, we don't work as hard as when we are confident of the outcome.

It has been said that wealth blunts economic incentives. Recent studies of the Survey Research Center indicate, however, that in the last decade of growing affluence, our desire for new goods and services has grown apace. Survey studies show that the American people desire a variety of things today which were hardly known 10 years ago. Owners of fairly new houses want a larger house, or a house in a better neighborhood, a second car, diverse new appliances, a summer house, a boat, hi-fi music and books. And the more we have, the more we are willing to spend on schools, hospitals and other public facilities. The reason why we do not have enough schools, hospitals and parks is not that we have too many consumer goods, but that the rate of growth of our economy has been too slow (and that we have had to spend heavily for national defense).

It follows, then, that our economy must grow at a faster pace than it has during the last few years. Action is needed not only to stimulate business investment and investment in human capital, but also to stimulate consumer investment. Tax credits could be given to buyers of houses, automobiles and large appliances, as well as to families undertaking additions to and repairs of their homes. Or some stimulation could be achieved through reducing automobile excise taxes. The first task is to gain acceptance of the idea that tax incentives must encompass both business and consumer investment.

WHY HAVE consumer investments been forgotten in the discussion of measures promoting economic growth? In addition to the considerations discussed at the beginning of this article, there is the controversy introduced by John K. Galbraith in *The Affluent Society,* which contrasts our private opulence with our public poverty. The "affluent society" has become, in the words of a popular writer, an "overabundant society," and the consumer goods that represent the high American standard of living have been equated with gadgetry and waste.

We all agree that we want more schools, more hospitals and fewer slums. Yet we disagree about how to achieve our goal. One recipe is to change the allocation of resources—i.e., cut down on consumer expenditures in order to increase public investment. In contrast, this author believes that wanting and striving for improved private living standards is the basis of our prosperity. Only if the so-called private opulence increases further can we hope to overcome public poverty. The question is not one or the other; it is both or none. ■

The 'New Look' in MANAGEMENT

by GEORGE S. ODIORNE

► *A favorite game among aspiring young men who want to achieve success in the business world is to try to work out a "success formula" that will take them to the top of the management ladder. George S. Odiorne, Director of the Bureau of Industrial Relations at the University of Michigan, offers them some valuable suggestions as to how the manager of tomorrow will be different from the manager of today. In the process he gives a lively description of the "style changes" in management that have occurred over the past 20 years.*

WHAT KIND of training and background is most likely to lead aspiring young men to success as corporation executives? For more than four decades now a small band of sociologists, led by Lloyd Warner of Michigan State University, have turned the microscope of analysis upon this question.

The first conclusion they have drawn is that ability counts more than social background. The second is that a college education is practically a must. Over 75 per cent of today's corporate executives attended college and almost 20 per cent had postgraduate education. The bulk of some 8,000 top managers studied graduated from a handful of colleges —including Yale, Harvard, Princeton, Illinois, Michigan, Chicago, Minnesota, California, Stanford, North Carolina, Texas and New York University.

Yet it isn't certain that the managers of tomorrow will spring from the same roots as those of today. There is already some evidence that forces are at work which may alter the portrait of the corporate manager in the future. The youngster of today who simply imitates the educational plan of a chairman of the board who was educated 40 years ago may find the system has become outmoded.

Men who achieved positions of power and influence in the business world during the Twenties were living in a very different world. For one thing, many more people are going to college today and they are often from different backgrounds than the college students of a generation ago. In 1928, for example, only eight per cent of the sons of laborers went to college in contrast to 34 per cent in 1960. This "upward mobility" is especially important when the boy goes beyond the bachelor's degree.

LAST YEAR at Michigan we asked 105 company recruiters to identify the strongest candidates for management positions from those they interviewed in the placement office. We also asked them to tell us which ones rated weakest in potential in their opinion. The youngsters who were graduating with a master's degree rated nine to one better than the bachelor's candidates. One interesting sidelight showed that the sons of laborers rated lower on the B.S. level, but at the M.A. level company recruiters tended to ignore the question of social background. The advanced degree, which more and more students are acquiring, seems to be a definite method of breaking through to higher levels of management. The laborer's son graduating with only a baccalaureate degree was less attractive to company recruiters, not primarily because of his background, but because he lacked, as the talent hunters put it, "the maturity, poise, personality and appearance" needed to fit into the executive cadet corps.

A favorite game of college students is to pick the academic course most likely to lead up the career route to the top. Every time a comptroller steps into the presidency of a large firm, as has happened in the automobile business in recent years, students are sure to rush into accounting classes. Actually, of course, there is no one route up the ladder, and managers are just as likely to enter the executive suite from a side door.

Engineers who reach the top at an early age attribute their accomplishment to the engineering mind which they acquired at "good old Tech." Accountants, by and large, believe they can get to the top by entering a CPA firm and going into corporate life through the controller's route. Some very prominent firms are headed by lawyers who reached the top in their companies after having first acted as corporate counsel.

The electronics industry has its share of scientists who parlayed the brain power they applied to the creation of company products into the chief executive position. In at least two of the larger electronic firms, RCA and Westinghouse, the chief executive came in at the top from a large management consulting firm which had advised the firm on high-level affairs. In other companies it is the sales department which is considered to be the best route; in still others it is manufacturing.

WHAT, then, leads to success in business? Does a formula actually exist?

First we might consider the Horatio Alger model for success—a formula which became popular in the latter half of the 19th century. The typical Alger hero was a poor, uneducated youngster who, by dedicating himself to the aims of his bet-

ters and adopting the basic virtues of the 19th-century American morality, was able to rise through the ranks.

The Alger hero's success was measured by the steepness of his ascent. There was always a tremendous contrast between his humble origins and his final arrival into a world of tuxedo-clad men and bejewelled women in evening gowns attending operas, and attended by footmen, butlers and an assortment of other servants.

The moral of the story was, of course, that a plucky and gritty youngster could begin as a shoeshine boy and eventually establish his own family dynasty. This happy arrangement linked the institutions of property and family with the equally laudable institution of equaliterian democracy.

It is true that much of America's economic growth can be attributed to family solidarity, which still contributes to the image of success in some ways. But, in practice, there is little similarity between the Horatio Alger model for worldly success and modern requirements for success in the business world. The owner-manager is a dying breed, and family ownership of industrial corporations has become an increasingly rare phenomenon. The new corporate managers who replaced the old-time "family capitalists" soon found it was neither natural nor appropriate to imitate the behavior patterns of their predecessors.

Managerial success became associated more and more with the performance of the corporation itself, and only incidentally with personal, off-the-job status symbols. The job became its own measure of success and high pay. Large but functional offices, the use of expense accounts, a company plane and a company lodge were the ingredients which attended upon success.

Ultimately the truth dawned on all but a few of the professional managers that there was no relationships whatsoever between the old-time symbols of family capitalism—such as wearing an opera cape or having a chauffeur—and being a successful executive.

As organizational performance pushed aside the 19th-century concept of success, the Alger myth was shelved along with it. Rather than

starting as a shoeshine boy who worked himself into the favor of the rich but kindly gentleman in the hansom, the new hero worked his way through the Massachusetts Institute of Technology or the Wharton School; after graduating he was offered a job at $650 a month by company recruiters who interviewed him at the campus placement office. Once employed, his ascent through the organization was unrelated to his appreciation of fine wines.

Thus the new model for executive success became more complex and more diverse with the decline of family capitalism and the emergence of the managerial society. Joseph Schumpeter, perhaps the best theoretician of the new capitalism, emphasized the *productive* aspects of our new economic system as it emerged. He felt that productivity, engendered out of innovation under the aegis of the businessman, would bring about continuous economic growth. This in itself meant some drastic changes in the accepted ideas of what the business leader looked like or, more appropriately, what he acted like.

The new forms of creative leadership which accompanied these economic and social changes were gradual in coming. There was some delay before the literature of success pointed up a new formula for successful leadership. The formula was simple—that the creative leader must adapt his own particular personal qualities to the situation and to his followers.

Changes in style, including automobiles, women's dresses and even architecture, are readily accepted by most of us. What is less obvious, but nonetheless true, is the fact that styles of management also change. Such changes in management methods seem to come out of pressures from the changing economic environment in which management is practiced.

The management styles which we have lived through in the last 20 years fall into three distinct patterns:

- The "hard nose manager" of the 1920s and 1930s.
- The "human relator" of the 1940s and early 1950s.
- The "management-by-pressure" type of the mid- and late 1950s.

Let's look at each of these in turn, not simply to rehash the past but to single out some guides that will help managers fit the future model of the creative "manager of situations."

One of the most common articles of faith of old-line managers is the belief that "people don't want to work like they did when I started working." This is partly true, and reflects the rigorous and often harsh standards which managers applied in directing the work force during the 1920s and 1930s. The labor force at that time was largely unskilled, unorganized and comprised of immigrants or first-generation Americans who accepted—and, in fact, expected—what we would consider poor working conditions.

Many foremen, supervisors and company presidents found it possible to manage in ways that seemed unduly strict or unfair to the workers. But the workers had to accept the situation as there were always people outside the plant gates who would have been glad to take over their jobs. Discipline was firmly enforced and the manager was most successful if he was tough. It wasn't necessary for managers to try to understand human relations and moti-

vations in such a climate. All they had to do to get their workers to follow orders was to hold over them the continual threat of being fired.

With the advent of World War II the crowd outside the plant gate and employment office shrank. As the demand for workers increased during the early 1940s, the kind of management practices used inside the shop and the office had to change. Management began to offer their employees more benefits and privileges, and, for the first time, began to worry about how to keep them happy.

They were aided in their efforts to apply the theories of human relations to their employees by a wave of social scientists who had entered industry expressly for that purpose. With pressing shortages of help in the face of a constantly expanding industrial war effort, management was sorely in need of the social scientists' advice. Essentially, that advice was: "Keep your employees contented and they will be productive." This psychology brought to the fore the kind of manager who was adept at pleasing people and who could maintain the euphoric atmosphere which was the necessary background for high production. Training courses sprang up by the score emphasizing the ways in which managers could produce peace and harmony in the shop.

In the late 1940s a new style change became necessary. This wasn't brought about by any new breakthroughs in social science. It resulted from rising inflation which began to press harder and harder upon management and the economy in general. Some companies discovered that not all contented employees were productive and that it took more than a sunny atmosphere to produce a good product and sell it at low cost.

Claude Swank, Vice President of Manufacturing of Johnson and Johnson in 1951, told a reporter that "we've got to find some pegs to hang this human relations business onto so it will produce more, not just make people contented." During the first years of the Fifties annual reports began to find more and more that sales volume was going up while profits were going down.

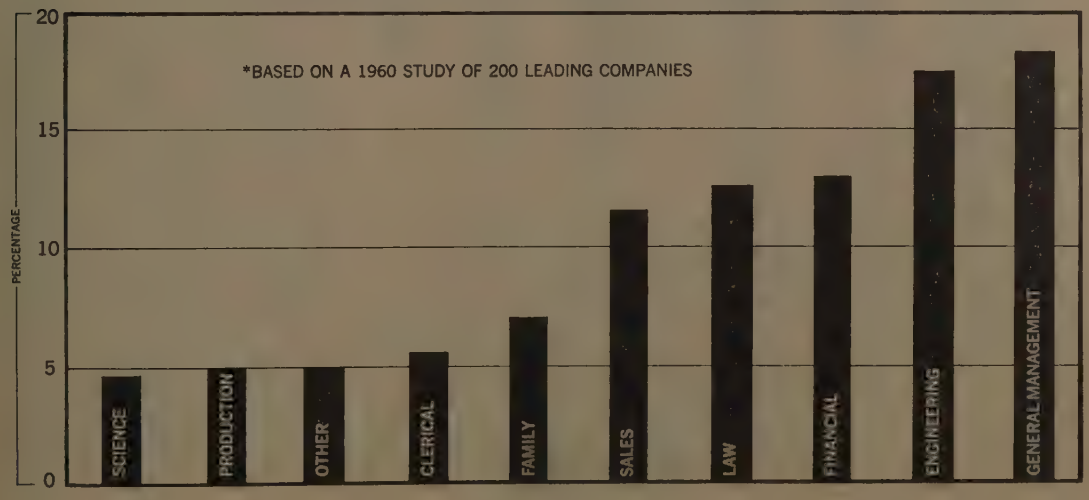
By the end of the Korean war the "cost-price squeeze" was being felt by virtually all industries. It resulted in the development of a new style of *management by pressure* in which the management from the top down exerted heavy pressure on the points where costs were getting out of line. This development brought about, in turn, the hard line in labor relations, the expansion of industrial engineering departments, the improvement of systems and procedures, the introduction of the computer to cut office and paperwork costs, and the moving up of a more action-oriented manager who could "make things happen."

Management expert Peter Drucker suggested in 1954 that future managers would be held accountable for results rather than for the pattern of human relations within their plants and offices. He added, however, that managers should avoid exerting ungodly pressures upon the organization for results—that, in the long run, better results would be achieved by a more rational approach.

At any rate, the manager of the 1950s became a sort of pressure expert, serving as a kind of "giant thermostat" who turned the heat off and on for the people below him. Management controls became a kind of thumbscrew which told the top fellow where to twist hardest for greatest effect. It once again became acceptable to fire people who hadn't produced. The fellow who could take the pressure and respond with good results moved up quickly.

Yet it wasn't a return to the "hard nose" days of the 1930s because there were still shortages of help in many areas. Despite the dips in the business cycle in 1953 and 1958, good men in many key areas were sufficiently scarce to require delicate handling. The trick was to exert

STAIRWAY TO CORPORATE PRESIDENCY*



enough pressure to keep people working harder than ever before but not so much that they would be discouraged and quit their jobs. Thus, the human relations techniques learned in the 1940s came in handier than ever as the instrument of an all-out attack on the "age of the great goof-off." In this climate, the new model of management for the 1960s was developed.

Concrete evidence indicates that the manager of the future will be a *manager of situations.* He will differ from the pressure artist, the human relator or the hard-nose we have seen in the past in six basic ways. Briefly, they are:

• *He will be judged by what his followers do.* The leader is a person who has followers. This logically leads us to conclude that the quality of a manager is directly related to the quality of the men who work for him, and his own results are essentially those of his workers. Tomorrow's manager will be confronted with more complex technical and commercial problems than ever before. He won't be able to do all the work himself even if he should want to; thus, he will become more dependent upon good men working for him. If he has built an organization of pipsqueaks, as management development expert Jim Hayes of Duquesne University put it, "he's nothing more than chief pipsqueak." On the other hand, if he has pulled together a team of tigers, he is the head tiger.

• *He will have no definable "executive personality."* The old game of seeking a pattern of personality traits that goes with being an executive is getting some critical attention. More firms are realizing that there is no point in trying to inculcate certain traits (such as initiative, loyalty, judgment) into an individual when we have learned that there is no single trait—nor set of traits—that is always present in successful executives and always absent in unsuccessful ones. Appraisal systems and personality testing devices which aim at whittling away objectionable knobs on a man's personality, or grafting new traits onto it, simply do not work. This is not to say, of course, that habits and behavior cannot be altered for the better through training.

• *He will make things happen.* Nicholas Murray Butler, former President of Columbia, once said that there were three kinds of people—those who make things happen, those who watch what goes on and those who don't know what happened. The manager of situations knows what is happening, and he is also making things happen. He decides that sales should increase, products should be developed, costs should be cut or quality improved, and he puts in the brains, the drive and the leadership to make it happen.

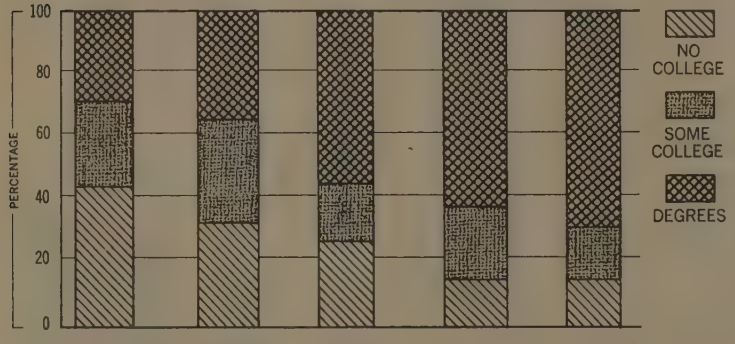
• *He will be more of a generalist than in the past.* The manager of situations knows that he is going to face problems that go beyond any specialty. He is apt to be more adaptable and flexible than any specialist could possibly be. He is more of an expert in analyzing situations, classifying problems, seeing causes and identifying proper courses of action for others (who are specialists) than he is in being more expert than everyone in his organization. He is more apt to be a creative thinker in unforeseen situations than an expert in familiar problems and areas of activity.

• *He will be an organizer.* Despite the dangers of conformity and stifled initiative which large organizations are reputed to have inherent in their structure, the use of management teams, task forces and sound organization will increase. The very numbers of people involved, the specialization in some areas and the rise of pressure groups for special interests will require the manager to exercise great organizational skills. He will delegate more responsibility, but the vital point is that, after delegating details, he will spend more time studying and organizing the situation than he could if he attended to too many lesser facets of the job himself.

• *He will be oriented toward results and responsibility.* These dual aspects of business life cannot easily be split into two distinct parts. Take the most common results which are sought by the typical manager—*profits and growth.* In achieving these ends the manager must take full responsibility for the *means* employed. He must operate within a value system. He cannot extract profits and growth from his business through unethical conduct; he must meet the ordinary standards of fair play and good citizenship. One of the flaws of the management-by-pressure style of leadership was that occasionally the manager found that the pressure forced him into some paths that inevitably reacted on him.

To sum up, the changing economic and social milieu have brought into existence a new type of manager. Ability to organize, get results and adapt to rapidly changing circumstances will be the primary criteria for executive success in the future. The manager may be a specialist in his own field, but as manager he will use his analytical ability to direct the corporate helm and to allocate responsibility among his subordinates. The new manager will be truly a "captain" of industry. ■

EDUCATION LEVEL OF CORPORATE PRESIDENTS*



*BASED ON A STUDY OF 500 LEADING COMPANIES

The Mexican Revolution—50 Years Later

by FRANK TANNENBAUM

► *The Mexican revolution is now 50 years old. What has it accomplished in terms of improving the living standards of the Mexican people? How democratic is the Mexican government? To what extent have class barriers been broken down? Dr. Frank Tannenbaum, Professor Emeritus of Latin American history at Columbia University, examines these and other questions concerning Mexican society today. He concludes that, while the promise of the revolution has not yet been fully achieved in Mexico, there is every reason to believe that the progress made thus far will be accelerated in the future.*

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FIFTY YEARS AGO is longer than it seems, for the world we live in was undreamt of by those who applauded William Howard Taft as President of the United States or marveled at the uniforms of Kaiser Wilhelm II who ruled, as he told the world, by divine right. Fifty years ago was the time when President Porfirio Diaz, at the age of 84, was the much decorated darling of all the people who counted Mexico as a peaceful, prosperous and progressive country, and its President one of those who best symbolized it.

But the Mexican people rejected the description given their country by the foreigners who thought it so safe, so well governed, and in a bloody upheaval that cost one million lives and lasted nearly 20 years undertook to remake Mexico closer to their own desires.

Now that the 50th anniversary celebrations are over, it is worth asking: How different is the Mexico of today from what it was 50 years ago? How much more stable is the political structure? How much broader is the base upon which the government rests, and how significant is the "Partido Institutional Revolutionario" which seems to win all the elections and manages the political affairs of the nation? What is Mexico's role in Latin America, and how exportable is the program of the Mexican revolution?

When compared to the rest of Latin America, Mexican society is much less stratified. The older *patron,* the *hacendado* on horseback with a whip in his hand, has passed away. The gulf between the "aristocracy" and the *pelado* has greatly narrowed. The rich today may be richer, but they were poor a little while ago, and the ambitious poor may also look forward to becoming rich. The poor are no longer humble in their adversity; they are polite but assertive, and the lower middle class is aggressive. Absolute "status" derived from family, tradition and ancient role has passed away. The rural landowner who ruled all he surveyed and who was above the law has vanished.

ONE CANNOT speak as one could have in 1910 of a stratified society, with an upper and lower, but no middle group. What is most conspicuous about Mexico is the importance of the middle. This middle reaches to the top, for there really is no upper class in Mexico. The older families are no more, while the middle class includes not only business people of various types, from the very rich to the small merchants, the government officials, the professions, the increasing number of skilled craftsmen, but the organized trade unionists and the millions of *ejidatorios,* owners of land in village communal groups, as well as the rising number of small independent farmers.

Being a member of the middle class is not only a matter measurable in economic terms; it is also psychological and social. Millions of Mexicans who, before the revolution, had no sense of growth, no ambition for themselves or their children, now look forward to changing their status. One thing that cannot now be said about Mexico, and it can about Peru, is that the country is governed by an entrenched oligarchy that derives its power from the past distribution of honors and wealth. Mexico is governed by people most of whom were barefoot boys and who would have remained so had they lived in the years before 1910.

With all of the inadequacies in education, income distribution and public services, one thing is clear: socially, politically and economically, Mexican society is wide open. Any energetic and ambitious youngster who has it in him may look to a career in business, education, politics or the arts. He may fail for one of a thousand reasons, among them poverty and insufficient education, but if he can overcome these, then he can join the group that is wealthy, influential and "upper."

ALL OF THIS does not apply to the large number of Indians who live confined in their own language, traditions and community organizations. But even for them the world is better. There is no longer the same contempt of the Indian, nor the same abuse. He is no longer denied the right to walk on the main city streets, nor forced to do unpaid labor at the whim of any petty official. More than that, the peonage that flourished before 1910 has disappeared. People are no longer sold with the land, and millions of formerly propertyless families now have their own plot of land or an *ejido* in a village community.

More important than the land is the disappearance of fear. The poor and the humble peasant is no longer afraid. He knows that he will not

be driven from his land, he will not be forced into the army as a punishment, he will not, with his wife, children and neighbors, as happened many times under the Diaz regime, be forcibly deported to a distant part of the nation.

The total environment has changed in Mexico and the attitude of the people in all walks of life is expectant. The mass of the workers and peasants may not be endowed with many more worldly goods, but they have a sense of growth and change. The society is neither static nor oppressed. All of this, interestingly, is true without basically affecting the traditional authoritarianism, the dependence upon a leader, a "chief," a *cacique*, a *caudillo*.

An unforgettable experience was hearing the voices in the crowds that gathered around Gen. Lázaro Cardenas, when he was President of the Republic, shout, *Viva el presidente macho*. They were acclaiming the personal courage, the daring, the dauntless acceptance of a challenge by the United States over the oil expropriation.

Any discussion of democracy in Mexico must take this inherent attitude into account. It is evident at all levels. In a little village, when I tried to find out about the workings of the local *ejidos* (communal land holdings) and the interesting social and education program, I was told to ask "him," the local leader, because he could talk for the group.

THE INCREASED mobility, the growth of organization in all walks of life, has not basically affected this deeply felt feeling toward the leader. With the exception of the last two chief executives, Adolfo Ruiz Cortínez and Adolfo López Mateos, all presidents of Mexico have come to office by marching up the stairs of the presidential palace literally and figuratively at the head of a victorious army. When the president-elect had not himself led the army to victory, some victorious leader paved his way and protected his rear. Political leadership has been personal. It has not been based upon a party system in our sense of the word. And the personal leadership was and is more important than political belief or ideology. This fact must be taken into consideration in any discussion

of political democracy in Mexico.

The institutional basis of government exists in the form of a constitution which provides for a division of powers, a president, a bicameral legislature and a judiciary. There are also political parties. All of the institutions function, however, only in response to the will of the leader. They have no life of their own. The leader provides the animating spark.

Mexican tradition does not allow for politically independent leaders. Psychologically, refusal to accept the official program is taken as a challenge to the president's power rather than a disagreement with his policies. That is the reason why it is impossible to have effective opposition in Congress. It helps explain the lack of judicial independence. This same compulsive acceptance of the all powerful leader makes impossible the election of a governor of any state against the known wishes of the president. Such an election would,

in fact, be a revolution. It would wipe out the prestige of the chief executive and with the prestige his political power.

THIS DOES NOT mean that there has been no democratic growth in recent years. The Mexican government has traditionally rested upon the army. Whoever controlled the army controlled the government. Beyond the military, there was no effective basis of political power.

As a result of the social changes that have followed in the wake of the revolution, additional sources of political power have come into being. Mexico now has a large trade union movement, an organized peasantry representing the *ejidatorios*, and organizations of small landowners and various professional groups—businessmen, teachers, federal employees, etc. In fact, what has happened in Mexico is that both in theory and in fact there has sprouted a sort of "syndical" or "corporate" society. These bodies are not terribly efficient, but they exist. They have varying degrees of influence and are more or less involved in politics. They have, in fact, given the government a new basis for political power in addition to the army.

The mere existence of these organizations—all of which may be described as falling within a broad definition of the middle class—has given the government a kind of stability which it could not attain as long as the only organized body in the nation was the army. This does not mean that these organizations determine the policy of the government or shape the practical fortunes of the nation in a direct and specific way. But it does mean that their presence sets up expectancies, obligations, influences and activities that change the tone and the quality of government and give it a democratic flavor which is somehow independent of the political party of which they are all formally a part.

The one political party (P.R.I.) through which the political activities of the nation are channeled is not a very effective organization and may never really become what we would consider a political party. It is now and has always been the political instrumentality of the executive. It is the means by which he designates

the governors of the states, the mayors of the large cities, members of Congress and the Senate, etc. The organized groups spoken of above are cognizant of the process, consent to it and in a tenuous sort of way take part in it. Their influence is acknowledged. And that makes all the difference between the past and the present. But the will that operates the one political party is that of the chief executive, and he marks the direction which it takes. This raises the question of why another political party has not developed.

THE ANSWER is many-sided and difficult because it involves a consideration of the total Mexican complex. We can, however, pinpoint two reasons for the failure of any effective opposition party to arise. One of them has already been suggested. The principle of leadership is so strong, the role of the present leader so "dominant," that a new leader is required for a new party. That is, an effective opposition political party could only arise if there were an opposition leader sufficiently strong to galvanize an impressive part of the politically conscious Mexican people. In the past, such an event has usually resulted in a violent overthrow of the government. At present, the one-party system makes it possible to absorb this individual into the official family. If the older tradition were to prevail, it would end in violence and rebellion.

The second—and even greater—handicap to the growth of a new party in Mexico is the high degree of political and financial centralization. The president disposes of nearly all the jobs in the administration and of all the jobs in the various independent agencies. He also has at his disposal most of the available income from taxes—the states and the counties receiving a mere pittance. This makes nearly every organized movement or project highly dependent upon the executive.

It would, however, be an error to assume that there is no political conflict or competition within the one party or that the various organizations we have spoken of do not make themselves heard within the official family. And there are a number of instances at the state level where local popular opposition has forced the executive to modify the plans of the official party.

Taken as a whole, the broad range of personal and social mobility, the many organized bodies and the competition *within* the official party give Mexico a different face than it had before the revolution. If one adds the rather free and little restricted press, the wide range of publications, the discovery by Mexicans that they are Mexican rather than European or American, the really astounding development in art, architecture and, more recently, in literature, and, to a more limited extent, in music, one has to recognize that a new Mexico has come into being.

WHETHER these changes have also brought higher living standards to the majority of the people would be difficult to detail. During the first decades of the revolution the prevailing violence literally destroyed the industrial establishment. The railroads were ruined, tracks were torn up, bridges blown sky high, engines abused and allowed to deteriorate. The same thing happened to the mines, and many were abandoned. Life in the rural districts was so insecure that people abandoned the countryside and flocked to the towns and cities. Agricultural production declined sharply, as a consequence. Recovery from this devastation was slow. It was not until the late 1930s that signs of a new start became apparent. During the last 20 years, however, agricultural production nearly tripled.

Industrial production also tripled in the years since 1940 and the real national income rose by something like 170 per cent. On the other hand, real per capita income, insofar as it is measurable, has probably risen no more than 50 per cent during the same period.

The increase in per capita income is lagging behind the increase in national income because of the extremely high birth rate. The Mexican population is increasing at about one million per year—an estimated annual rate of something under 3.5 per cent. The population is therefore doubling with every generation.

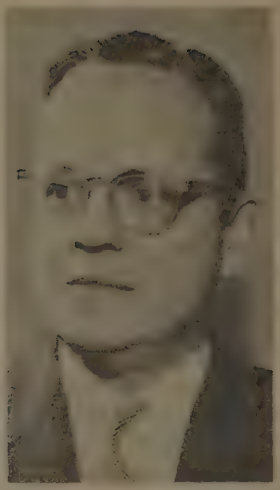
The number of people to be fed, housed and clothed has grown so rapidly that great economic expansion was required just to maintain the existing standard of living. But one can, at a glance, see that an increasing middle class has come into being, that public services have vastly increased, that hundreds of new plants have been built turning out steel products, chemicals, insecticides, radios and a thousand other products.

If the Mexican people seem to be enchanted by the Cuban revolution, it is because they have been led to believe that they are witnessing a revolution like their own on Cuban soil. It would, however, be wrong to assume that this involves the prospect of a new violent upheaval in Mexico. The Mexican people are proud of their revolution. They have developed a political and administrative mechanism which is resilient and pliable; they can adopt this to changing needs as they arise.

Finally, they are so concerned with promoting social justice and increasing the dignity of Mexico and the Mexicans that they are the least likely of the Latin Americans to be caught up in following the will of the wisp of a new bloody upheaval in the name of a strange doctrine. The Mexicans are not doctrinaire and never have been. ■

Challenge Interview

The Economics of the Press



EDWARD W. BARRETT

► *The wave of newspaper mergers that has swept the U.S. since World War II has raised serious questions about the dangers of monopoly in one of the most vital areas of any free society. Edward W. Barrett, Dean of the Graduate School of Journalism at Columbia University, has wide experience in the communications field. He has served as editorial director of "Newsweek" magazine and as Assistant Secretary of State for Public Affairs.*

Q DEAN BARRETT, *what would you say is the principal reason for the wave of newspaper mergers that has swept the country during the last 15 years?*

A The basic reason is the economic pressure stemming from constantly rising costs. It costs one newspaper half as much to do a thorough job of gathering local news as it would cost two newspapers. The cost of setting type for two papers is twice what it would be for only one. And, naturally, it is cheaper to have one distribution system to deliver the papers to all parts of a city than to have two.

Q *Wasn't this always true?*

A This, of course, was always true. But the rising costs of labor and materials in the postwar years have made mergers seem much more attractive to many publishers who might not have considered these factors under different circumstances. Let us say that in some cities it was absolutely necessary for newspapers to merge, while in others the economies that could be achieved made it very tempting.

Q *Actually, how many more one-newspaper cities are there today than, say, 50 years ago?*

A In 1910 about 44 per cent of the communities that could be classified as cities had either one newspaper or monopoly ownership of two papers. Today between 93 and 95 per cent of American cities are essentially one-newspaper towns—or at least one-ownership towns. We must bear in mind, however, that the trend toward consolidation is not confined to the newspaper business. It has also affected many other areas of our economy.

Q *Wouldn't you say that consolidation has had a far greater impact on the newspaper business?*

A Not necessarily. A generation ago there were probably 50 companies in this country manufacturing automobiles. Today there are five or six. Many localities had two or more telephone companies. Today, of course, they have only one. The grocery business may be an even better example. A generation back, a medium size city had literally hundreds of grocery stores. Today the same city might have no more than a hundred different ownerships of stores with, maybe, three or four large chains doing 80 to 85 per cent of the business. This mounting pressure to cut costs, which can only be achieved through consolidation, has, naturally, affected these other areas, as well as the press. In many instances, even more so.

Q *Do you feel this trend will continue with the press?*

A It will continue, but at a much slower rate. The pace will slow down for the simple reason that there aren't many cities left with competitive newspapers. Large cities like New York, Chicago, Los Angeles and Boston will, undoubtedly, never have monopoly ownership because they are big enough to make competition economically feasible. But we have seen that competition is economically impossible even in fairly large cities like Providence, Louisville and Minneapolis. I think it is a fairly safe prediction that even in competitive cities such as New York and Boston, the present number of newspapers will probably be reduced. Although New York can probably support four or five newspapers, it is doubtful whether it can long support the seven dailies currently being published.

Q *All of this, of course, raises the question of the possible abuses that might be inherent in monopoly ownership of newspapers.*

A It is not possible to give a black or white answer because the situation isn't all black or all white. There are obviously disadvantages to monopoly ownership of newspapers, such as the potential suppression of news that a publisher doesn't find particularly palatable—or the overplaying of news that he happens to like. This has happened in a few one-newspaper towns, but certainly not in the vast majority. In fact, in cities like Louisville and Providence, the newspapers today are more responsible, more complete and better balanced than any single newspaper was prior to monopoly ownership.

Q *In other words, sometimes the absence of competition gives us a more responsible press?*

A Yes. This is probably the most interesting and important consequence of the recent wave of newspaper mergers. And one, I must confess, that I had not fully anticipated. Yet, I have seen it in town after town where mergers have occurred.

Q *What do you think are the reasons behind the fact that monopoly in many instances begets responsibility?*

A In the first place, when competition disappears, newspapers are freed of the old temptation to try to outscream each other with sensational news and headlines. It makes no sense for them to exaggerate the news in order to sell more papers, if they are the only newspaper in the city. In the second place, it is sheer economic folly for a paper which has no competition to be violently partisan and risk alienating a segment of its readership which it has, so to speak, in its lap. Thirdly, the economic advantages of monopoly enable the paper to afford to give its readers a more complete coverage of the news.

Problem of too much blandness

Q *What are some of the disadvantages to the public of monopoly ownership of newspapers?*

A Aside from the obvious ones of potential news distortion and the elimination of news the publisher doesn't like, there is the problem of too much blandness. This stems from the tendency, which I mentioned before, not to publish anything that might offend a large segment of the readership. A newspaper which doesn't want to offend anyone naturally can't crusade or print editorials demanding reforms in the community. This has, in the past, been one of the vital contributions of the American newspaper.

Q *Doesn't the availability of other media soften the impact of the tendency toward blandness in many newspapers?*

A It certainly does. If this trend had occurred a generation ago, its consequences would have been far more serious. Today residents of one-newspaper towns have access to local and national radio and television as well as the weekly news magazines. In addition, there is hardly a city in the country that isn't within 200 or 300 miles of another—and probably larger—city which has a newspaper that sells some copies in the town concerned. This makes more news available to those who don't find enough in their local papers and also serves to keep the local press on its toes.

Q *You don't feel, then, that the trend toward one-newspaper towns is as detrimental as some observers seem to think?*

A I don't particularly like the trend because I don't like monopoly in any area. But, on the whole, the effects in the newspaper field have not turned out to be as pernicious as many had predicted. The main reasons for this, as I pointed out before, are the increasing responsibility of the press resulting from the lessening pressure to outsensationalize the competition, and the fact that newspaper readers have other media from which they can gather information.

Q *Do you think there is any possibility that a national press similar to Great Britain's will ever develop in the United States?*

A We already have the beginnings of a national press in both *The Wall Street Journal* and *The New York Times*. The *Journal* publishes four regional editions and the *Times* is about to launch a West Coast edition. These beginnings are still small, however, but the idea of a national press is bound to grow in the years ahead. Today it is perfectly feasible to send photos and full pages of text to various points around the country and have the paper printed simultaneously.

Q *Why have the British been so far ahead of us in the development of a national press?*

A I think that it is merely a question of the relatively small size of the country and the short distances between the major cities. Incidentally, the British national press has produced some of the best newspapers in the world and some of the very worst.

Q *Are there other countries besides Britain where the national press is predominant?*

A The other outstanding example is Japan, where the *Asahi* and other newspapers do a remarkable job of printing multiple editions simultaneously throughout the country.

Technological innovations

Q *What are the obstacles to such a development in the United States?*

A Until recently the principal obstacle has been the sheer size of the country. Today, however, technological innovations have made it perfectly feasible for some enterprising publisher to start a daily newspaper whose operation would in many ways be comparable to the

Sunday supplements such as *This Week* and *Parade*. In other words, the newspaper's main section containing international and national news and advertising would be sent to various printing plants across the country. A second section containing local news and advertising could then be inserted in each locality. While there might be some difficulties, such as agreements with the various unions involved, this sort of project is certainly within the realm of possibility.

Q *Would you say, then, that the strictly local newspaper is definitely living on borrowed time?*

A No, I would not. In the United States the exclusively local paper will never be supplanted by a national press. People always need and want local news. They want to know about lodge meetings and church gatherings, to say nothing of developments in local politics. In addition, the consumer wants to read local advertisements to find out what the town's merchants have for sale. While this, of course, could be done in the local section of a national newspaper, I still feel that most communities require a locally published newspaper of their own. It is conceivable, however, that in some areas the local paper could become a weekly if the idea of a national press really took hold. But I think this is a long way off.

Changes in emphasis

Q *Dean Barrett, many critics have complained that most American newspapers neglect international news and concentrate too much on local crime and scandal. How do you feel about this?*

A While readers with a deep interest in world affairs would not be satisfied with the coverage in most of our newspapers, samplings conducted by the School of Journalism indicate that there has been a definite improvement in recent years. And, conversely, there has been much less emphasis on petty local crime and other trivia.

Q *What would you say are the reasons behind this change?*

A I think there are three reasons. The first and least admirable one is that newspapers get a lot of national and international news rather cheaply from the press associations. Since reporters' salaries are higher than they used to be, it is cheaper to give space to news that comes in over the wires than to have a lot of reporters going out looking for local news.

Q *What are the other reasons for the increased space given to world affairs?*

A The other reasons, first of all, stem from more admirable motivations than the first one. Publishers, for all their faults, by and large recognize that they are dealing with a public whose educational level is considerably above that of a generation ago. You don't need a crystal ball to realize that more and more people are completing high school and going on to college. And, finally, the American people, because of the exigencies of the cold war with the Soviet Union, are far more interested in international developments than they used to be. The average newspaper reader realizes that whatever happens in the most remote corner of the world can eventually affect him.

Q *In general, what type of newspaper coverage is receiving less space to make room for the increased international news?*

A I would say that the space devoted to minor local crimes and accidents has decreased considerably along with the space devoted to local social activities like women's bridge clubs. Here I would add that the space is definitely not being taken away from advertising. In fact, because of the economics of publishing—meaning the constantly rising costs which we mentioned before—the proportion of advertising to news space has risen in papers across the country.

Q *What are your feelings about the eternal conflict in American journalism between those publishers who feel that they are newspapermen first and businessmen second, and those who say that they are businessmen and their primary concern is profits?*

A I would say, with some regret, that I find publishers in the United States representing both of these extremes. There are those, of course, who would like to have their cake and eat it too. They are proud of being publishers and newspapermen until they are criticized for not doing something or other. Then they will fall back on the argument that they are businessmen who have to make a profit.

Q *I think you will admit, however, that they must make a profit in order to stay in business?*

A Of course they must. In fact, on the national average, the percentage of profit in the newspaper business is considerably below the average percentage of profit in American industry as a whole. Consequently, a man is not being very smart if he goes into the newspaper business solely for profit. He could take the same amount of money and probably make far more profit elsewhere.

Spirit of public service

Q *The American publisher, in other words, is a unique combination of a businessman and a newspaperman?*

A To summarize my own view, I would say that an individual has no business in newspaper publishing unless he is motivated in part by a spirit of public service. The safeguards for a free press provided by the Bill of Rights are not there to protect the publishers. They are there to insure that the American citizen has free access to all the information he needs to find out what

is going on. Any publisher worth his salt should keep this in mind.

Q *Do you feel that a publisher has an obligation to try to raise the level of public taste and understanding?*

A I certainly do. If he moves too fast in raising this level, he, of course, runs the risk of losing his readers. He can't ignore all the trivia that occur in a community because a good many of his readers are vitally interested in such items. If he does, he will suffer the economic consequences. On the other hand, there is great danger in underestimating public taste. I think we all owe a great deal to the decent and conscientious publishers who make it a point to raise the level of their publications gradually, instead of simply saying that they would like to publish a better paper but the public won't buy it.

Q *What you are saying, then, is that it is the responsibility of a publisher—within his economic limitations—to try to raise public tastes just a little bit?*

A That is correct. He must consistently raise the level of his publication as rapidly as he thinks it is possible without alienating his readership.

News columns vs. editorial pages

Q *Dean Barrett, every time we have a national election there are charges thrown back and forth to the effect that the press generally favors the candidates of one party over the other. Do you think there is any truth in this?*

A It is certainly true as far as the editorial pages are concerned. But I think that the objectivity of the news columns—where it really counts—is getting better all the time. We made a recent study of this problem in connection with the last Presidential election and found that, although it still left much to be desired, the election coverage was the fairest in history. As far as the editorial pages are concerned, there is no doubt that a rather substantial majority of American dailies tend to favor Republican over Democratic candidates. I personally don't object to that as long as they keep the news columns unbiased.

Q *Would you care to speculate as to why the coverage of the last election was so much fairer than the previous ones?*

A I think it was partly due to the higher professional standards prevailing in the field of journalism. Then there is the matter we discussed previously—publishers in monopoly towns bent over backward to be fair so as not to alienate a large segment of their readers. I could also speculate that Nixon was probably less popular than Eisenhower and that this might have affected the news coverage. This, of course, is not easily measured and is pure speculation.

Q *Can't a publisher also influence readers through the political columnists he buys from the syndicates?*

A Of course he can. But the general tendency today is to achieve some kind of a balance between columnists of different political persuasions. You will, for example, very often see columns by, say, David Lawrence and Walter Lippman running on the same editorial page. In fact, if you examine the nationally syndicated columns, you will find that there is a preponderance of liberal and middle-of-the-road columnists. If I were intent upon making money as a syndicated columnist today, I would write a reactionary column because there are very few columnists espousing extreme right-wing views.

Q *Getting into a slightly different area, do you feel the news magazines compete with daily newspapers, or do they serve as a supplement?*

A Although they are competitive in a sense, they are primarily a supplement. When I was editorial director of *Newsweek*, we found a very fascinating pattern in the subscriptions that came in on a voluntary basis—that is, those that didn't result from any intensive selling campaign. The greatest number of these always came from cities that are generally recognized as having the worst newspapers. The smallest proportion came from cities with fine newspapers. I know that *Time* has had the same experience, and I would assume that the same thing is true at *U.S. News and World Report*.

Q *Is it possible that the news magazines have helped newspapers in that they whet the appetite of people for more news?*

A I am sure that there is some correlation here. Any broad-minded publisher should realize that in the long run the more the public becomes interested in world affairs, the more it helps the newspapers. I regret, however, that in many cases the news magazines have not taken a more balanced point of view of certain major issues. But, in recent years, they have become better balanced than they used to be. On the other hand, they have certainly shown that significant news developments can be made interesting to the average reader. Here the news magazines have done a better job than most newspapers.

Q *As the Dean of a school of journalism, would you say that the merger trend has cut down the number of job opportunities for graduates?*

A While the trend has undoubtedly reduced the number of jobs, the quality of the jobs available is much higher than it used to be. The newspapers are seeking higher caliber people, and they are offering much higher salaries than they have in the past. Since, as a graduate school of journalism, we are only interested in placing our graduates in the quality positions, you might say that the wave of newspaper mergers has been beneficial from the limited point of view of placing our students.

Q *Thank you, Dean Barrett.* ■

LESS REGULATION, MORE COMPETITION

by LOWELL B. MASON

► *While many people would agree that our antitrust laws are out of date, there is no general agreement as to how they should be amended. Former Federal Trade Commissioner Lowell B. Mason, for example, believes that our anti-monopoly statutes place far too much power in the hands of government officials to the detriment of the freedoms of the individual businessman. Robert F. Lanzillotti, Chairman of the Economics Department at Michigan State University (see page 31), for his part, feels that the antitrust laws are inadequate because they do not have enough teeth to curb the market power of giant corporations.*

THERE IS SUCH a great hue and cry today over amending the antitrust laws that the casual bystander might be curious to know who wants to change them, in what manner, and why.

The bystander might be an average, ordinary businessman who doesn't forget that he is a citizen and consumer, too. He is not particularly anxious to give government bureaucrats more authority because this leads to tyranny against all citizens. Nor does he want to give business groups protection against competition because this leads to higher prices for everybody.

To put this problem in perspective, I will attempt a brief review of past efforts and current proposals to move the concept of social security into the market place. By this we mean proposals to protect the less fortunate by reducing the competitive vigor of the competent. We refer to a sort of perverted social security administered and indiscriminately applied by certain men in public office against certain other men engaged in private enterprise.

We shall refer to federal economic police (for convenience, hereafter called *ecopols*). To say that the Federal Trade Commission wants this, or the Department of Justice wants that, is the wrong way of putting it. Federal trade regulation is based on the running commentary of men in official position as expressed in their written opinions, their official pronouncements and sometimes their speeches. The world of business is not entirely under a government of law. In large part, it is under a government of men—political appointees and civil servants —not elected officials. From day to day and from case to case, they announce what *they* consider wrongful and then impose sanctions against other men for doing these things.

We are not critical of this personal power in itself, but we call it to the reader's attention at the beginning because many of the suggested amendments to the antitrust laws as well as some present procedures do violence to Anglo-American concepts of judicial fair play. This makes it imperative that the concept of trade regulation should, for the sake of clarity, be understood for what F. A. Hayek calls it: "the deliberate coercion of men by other men."

IN THE current session of Congress, the leader of the ecopols (the chairman of the FTC) has already been granted power to delegate his administrative authority on down the line to any one of about 700 employees. People might be more sensitive to the growth of bureaucratic power if they pierced the veil of government institutions and saw the truth of Mr. Justice Douglas' statement: "We live in an era when politically controlled officials have grown powerful through an ever-increasing series of minor infractions of civil liberties."

Everybody knows social security is a system of regular support for individuals through monthly payments from a fund created by prior contributions of the individual and his employer. It is only for those persons who have withdrawn from the production of economic goods (elderly, physically handicapped, etc.). The moral foundation of the whole concept of social security is that man in his fertile years accumulates a credit upon which he draws when he is no longer able to engage in the active production of economic goods nor in the struggle to sell them.

Social security is a *fait accompli*. It will never be repealed. And much as some folks may complain about its additional tax burden, they should be grateful for its antisocialist effect. Its concern, in other words, is for the individual, not for the state, not for an association, a corporation, a business enterprise and not even for individuals as businessmen.

Those who re-enter the competitive struggle are no longer eligible for social security. They must choose between the two. Operating a competitive free enterprise system requires millions upon millions of tiny, medium and big decisions every day. For years, in this country, these decisions have been pondered and answered on the personal responsibility of private individuals—individuals who are motivated by the hope of present or future advantage either in material gain or psychic reward for a job well done.

With this fond hope traveled the stark knowledge that even though the individual's answer was honest, if the market didn't agree with his judgment, he had an equal privilege of sustaining a loss.

There will always be millions of businessmen trying their very best to decide for themselves: "What goods shall I make—and when? What price shall I pay—or ask? In what quantities shall I sell—to whom? Or buy —from whom? How and in what media shall I advertise?"

One could go on *ad infinitum* propounding the problems which in a free country must be solved in the market place every second of the day by people in business. Everybody knows that this is what a market is

for. But I think it more important that we agree on what a market is *not* for. It is not a shelter for the superannuated, it is an arena. It is not a pasture, it is a battlefield. Who is so stupid as to think he can build an old people's home in a wheat pit? Who would carry his grandmother to a wrestling match? Why anyone would want to move the one into the other is not generally understood. Both may be good, when standing on their own feet; but when joined, social security and the market place are incompatible in a free society.

AND THE converse is true. They are only compatible in a Communist society. Soviet economic police have both the authority and machinery to reach down into the smallest *kolkhoz* (farm cooperative) to observe (and direct) management decisions on what to make, when and how much. This, in effect, is the way some people think the ecopols should run our market place. In fact, much of the choleric attitude of people toward private enterprise comes from the original assumption (and later disillusionment) that government should see to it that free private enterprise cures everything.

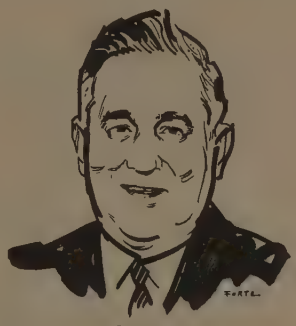
It sounds harsh to be didactic about this, but Ludwig von Mises states the true situation quite clearly: "What the capitalistic democracy of the market brings about is not rewarding people according to their 'true' merits, inherent worth and moral eminence. What makes a man more or less prosperous is not the evaluation of his contribution from any 'absolute' principle of justice, but evaluation on the part of his fellow men who exclusively apply the yardstick of their own personal wants, desires and ends."

Social security for special and privileged groups in the market place has been foisted upon the consumer three times in the history of America.

- First, in colonial days by our mother country, to protect entrepreneurs in England.
- Second, in the late 19th century by private corporate monopolies and combination in restraint of trade to protect themselves.
- Third, in 1933 by our own government under NRA for the benefit of big business and big unions.

Now that we are faced with another dose of social security in the market, we should glance at the special privileges of the past lest we be condemned to swallow the same old tyrannies again.

We waste no time on the Tory arguments in favor of securing British manufactures and British shipping against colonial competition. The established law was on the side of the mother country, and the



FTC Chairman Dixon

Boston merchants who dressed up as Indians and dumped tea into the harbor in protest were doing something they shouldn't have done, according to law.

BUT LET US move up to the late 19th century and see how the trusts entered into private agreements to keep the market "socially secure" (for them). The first decade of the 20th century saw more than 100 trusts formed. Each had its own private social security operation in its own market.

Now and then somebody (maybe a great grandson of a Boston tea merchant) would secretly try to break the sacred monopoly, but not for long. Each trust had its own system of espionage. In the pottery industry, for example, if someone missed a bid because his price was "legitimate," the "illegitimate" aggressive bidder who got it by passing on savings to his customer was privately penalized.

And then the muckrakers started in. Ida Tarbell, in her *History of the Standard Oil Company* and Upton Sinclair in *The Jungle*, along with other chroniclers of the "malefactors of great wealth," had more to do with the passage and vigorous implementation of the Sherman Antitrust Act, the Federal Trade Commission Act and the Interstate Commerce Act than the politicians and bureaucrats would like to give them credit for. These acts were all aimed at taking social security out of the market and putting back some old-fashioned, painful competition.

The muckraking worked. Illegal combinations were broken up. Private cartels limiting the size of markets were destroyed. They were not destroyed completely, of course, but, at least for the next 30 years, the ecopols were on the side of competition. Then came the stock market crash of 1929. Some said it was due to "overproduction"; others said "underconsumption." But the men in authority said it was because there was too much competition. The result was the National Industrial Recovery Act (NIRA) in 1933 which moved social security back into the market place. Only this time it was brought in by the government instead of by individual conspirators.

There were 480 codes regulating 480 different industries which either limited production, fixed prices or controlled who could go into business. Men were prosecuted and some went to jail for passing on savings to customers. As General Counsel of the Darrow Board investigating the effects of these restraints of trade, I remember the small businessmen who were destroyed because they were not allowed to compete. We received more than 3,000 complaints from businessmen in 30 days, all of them because the NIRA would not let them compete.

WHAT KILLED the NIRA? Was it the Supreme Court's Schecter decision? Was it the Darrow Board castigations of price fixing and government-created cartels? Or was it the blacklisting, boycotting and spying carried on by the federal government in the name of saving our "free enterprise system"?

It was none of these things. The thing that killed the NIRA was the American businessman's indomitable spirit to excel in the market. No other gainful occupation is so closely allied to freedom and as far removed from tyranny as the market.

The three feet of counter space between the buyer and the seller epitomizes the democratic principle. It is the market where the prerogative of the customer to make his own choice, and the right of the seller to extol his own wares, go unchallenged. These rights are the keystones of democracy and liberty. The first breaches in the "divine right of kings" took place in the market. The right of free assembly didn't come from a laboratory, a throne room or a cathedral. It first came in the market place. Freedom of choice (once the prerogative of kings) became democratized at the barter table. It was one of the first voting places.

With all of this in mind, who wants to put social security in the market and how do they propose to accomplish it? To be perfectly candid, the ecopols want more power so they may obtain easier and quicker convictions of businessmen. This is what economists call the theory of "conservation of effort." By that we mean conservation of police effort.

Generally speaking, the ecopols already claim they have the right to blanket entire industries with lengthy questionnaires. These questionnaires require an employee to disclose under oath the trade secrets of his corporation. The ecopols, if they deem it necessary, may make the information public. In addition, it is proposed that the ecopols shall have authority to stop certain advertising, to prevent one company from buying another—all of the above powers to apply in special statutory categories without the formality of trial or the supervision of a judicial official.

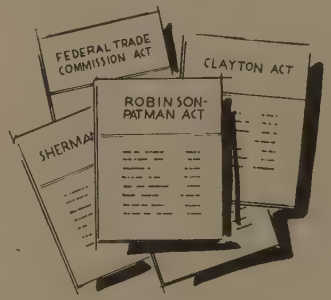
Due process generally interposes a judge and a judicial proceeding between the businessman and the commands of the ecopols. This is done neither to shield criminals nor to make their illegal activities immune to the law. It is done so that an objective mind might weigh the facts before assessing a penalty or inflicting a burden. The right to punish is too precious to entrust to those whose job is to prosecute.

There are, of course, many other fringe authorities desired or already claimed by the ecopols: to prevent a merchant from meeting his competitor's lower price; to assume that a man is guilty until he is able to prove his innocence; to order the dissolution of companies that are too successful—success being measured in terms of assets; and to imprison corporate officials if an employee of their company violates the law.

All of these proposals are directed against the business community. They range in motivation from an hysterical hatred of free enterprise to a very calm and calculated effort to bring social security into the market place.

THIS ARTICLE is too limited to analyze or even list all the suggestions for socializing the management of free enterprise, much less to spend any time on the kind of "take 'em out and hang 'em" proposals, such as that of Sen. Estes Kefauver (D.-Tenn.), which advises us to imprison corporate officers on the "guilt by trade association" theory.

Strangely enough, there are private citizens who want the ecopols to have these extra powers. Some groups of businessmen want the ecopols to curtail the rigors of com-



petition in their own business and, at the same time, prosecute other industries for not competing. This is also under the "conservation of effort" theory. Except now, we mean conservation of business effort. When they sell goods, they don't want to be burdened with chiselers undercutting their price—and when they buy goods, they don't want to be bothered with price fixers overcharging them.

Perhaps it is the mood of the present to look upon success in business as a trifle dirty. It connotes that in your business of selling a better mousetrap for less, your rival gets hurt no matter how nice a fellow he is. Some academicians and publicists feel very unhappy over the lot of those who suffer loss and defeat in the trade marts.

They endlessly capitalize on a recital of human suffering due to economic inequality and cry that today's free enterprise is responsible. In the old days, the popular concept of the idle and/or rapacious rich gave accent to their wailing. The Goulds, the Rockefellers, the Astors, the Vanderbilts, the Harrimans—ah yes, at what cost to social progress were their steam yachts, private cars, orchids, champagne and terrapin soup? Some of this stuff leaks over into our best sellers today.

Today's bureaucrats are not to be done in, for lack of such horrible examples. They can't set their theory of perpetual personal poverty against a plethora of fin-tailed autos, TV sets and freezers. Too many people have these present-day equivalents of opulence along with personal social security to make their cry effective.

So now they want to move social security from the individual to his business. They want trade to operate with a social conscience—to be all things to all entrepreneurs. How? By taxing success? That's a field the Department of Internal Revenue has already pre-empted.

Now that income is socialized, we must move on to socialize management. No competitor must be hurt because he is incompetent nor gain because he is competent. Shall we do this by limiting success? This has possibilities, and so it is proposed that companies with total assets above a certain figure should be liquidated. If this fails, why not make the successful share of their "know-how" and their vigor with the less fortunate? Why not "from each according to his abilities, to each according to his needs"?

THE FTC has already put one phase of this Marxian mandate into the American market place. Using the antiprice discrimination statutes as a base, FTC decisions provide that every incompetent, sick, feeble, poor, bankrupt, lazy, careless or quarrelsome merchant that a producer does business with must be let in on every promotion that is jointly worked out between the producer and his most competent solvent and cooperative distributor. If the con-

sumer saves a little money in the process, then that makes the deal really illegal.

Let's just look at one of the laws designed to bring social security into the market place. For 25 years the Robinson-Patman Act has been on the statute books. It has completely failed to bring social security to the market except in one small segment of trade, the citrus fruit market. Here the accomplishment was by totalitarian techniques. By dint of a special section of the Robinson-Patman Act which makes it illegal *per se* to give a consumer any savings in distribution costs, and by dint of widespread mail-order inquisitions which forced people to inform on their friends, relatives or other corporate associates, and by dint of a close network of internal spying and confessions which resulted in hundreds of consents to orders without trial, the distributors of citrus fruit have been able to secure themselves against the competition of the open market. But even in this industry the security is crumbling. For the market place, whether it is in citrus fruit or rocking chairs, is the archenemy of totalitarianism.

In a free enterprise market a customer gets the best he can for the least money. In today's social security market he may be sued for shopping around too much. If his friend, the storekeeper, saves him money the first time and gets caught doing it the second time, both of them can be liable to a fine of $5,000.

The ecopols have taken hundreds of orders against little fellows caught passing on savings to their customers. But it is no use. The law does not work. It can only work in a totalitarian society. A law against competition is like Connecticut's blue law against a man kissing his wife on Sunday. If he doesn't want to, he won't anyway. But if we wants to, he will anyway. That's the way it is with a law against a man meeting his rival's price or passing on savings to his customer. If he doesn't want the business, he won't anyway; but if he needs it, he will. This means the ecopols are going to have their hands full with a lot of Americans loaded with the lust to succeed. ■

Are the antitrust laws out of date? — 2

MARKET POWER AND MONOPLY

by ROBERT F. LANZILLOTTI

SEVERAL YEARS AGO David Lilienthal dramatically warned that our antitrust laws "are crippling America." Despite slender evidence for his sweeping denunciation, this opinion is still a popular one in some legal and business circles.

In particular, the antitrust statutes are criticized for their "uncertainty and vagueness," and the courts have been criticized for using "faulty or inappropriate standards" for judging violations. Business leaders also have expressed fear that the antitrust agencies (the Justice Department and the Federal Trade Commission) are going beyond their responsibilities as enforcement agents and are revising the structure of American business in accordance with the administrators' own social, economic and political philosophies.

The recent convictions of the 29 electrical equipment manufacturers and 44 officials, for what *Fortune* magazine calls "The Incredible Electrical Conspiracy," has rekindled this resentment of antitrust laws and their interpretations by the courts. After the cases had concluded with fines and jail sentences for the guilty, various business executives reported that the general feeling in the electrical equipment industry was that the laws were simply unjust.

Over the years a friendly "live and let live" philosophy had developed among competitors in many industries; to the adherents of this creed antitrust laws designed to maintain, or even to force, competition almost constitute government interference. Consequently, so the argument goes, our antitrust laws are in need of overhauling to bring them into line with the realities of modern business life and the cold war.

Are these recurring criticisms essentially partisan? And are the predictions of economic disaster erroneous? Are our antitrust laws and their interpretations out of step with the technological requirements of efficiency, research and progressiveness? Are the original purposes and objectives of the antitrust laws still appropriate and necessary in today's economy? In effect, are the antitrust statutes *compatible with* or inherently *in conflict with* the structure of American industry that has evolved over the years or with that desired by most Americans?

Essentially, our antitrust laws are directed against three major anticompetitive practices and threats to a free enterprise system: (1) collusion—i.e., agreements or understandings among ostensible competitors to fix prices, rig bids and divide markets; (2) outright monopolization or attempts to seize control of markets; and (3) unfair or predatory methods of competition. The prohibitions in the laws dealing with these different kinds of threats to a competitive system reflect concern over the use and abuse of private power to dominate markets.

LET US first quickly review the history of the antitrust laws. The Sherman Act, passed in 1890, and subsequent legislation are all based on the philosophy of preserving and enforcing competitive free enterprise.

The Sherman Act specifically forbids the first two types of interference with competitive processes—collusion and monopolization. But it became evident before many years that where the practices of powerful concerns had destroyed competitors, no amount of remedial action could

revive the dead. Similarly, where firms had joined in combinations that destroyed competition, the courts were unwilling to "unscramble the eggs." For these reasons, plus the belief that the Sherman Act was not specific enough, the Congress in 1914 passed the Clayton and Federal Trade Commission Acts. The purpose of this supplemental legislation was expressly "to arrest the creation of trusts, conspiracies and monopolies *in their incipiency and before consumation.*"

To this end, the Clayton Act prohibited market conduct that would have monopolistic results, i.e., price discriminations and cut-throat competition, tie-in sales and similar arrangements designed to shut out competitors, acquisition of stock in competing companies and interlocking directorships among competing companies. These laws were aimed at curbing both market *behavior* and market *structure* where a monopolistic result seemed probable. Thus, amending legislation over the years since the Sherman Act has been more in the direction of *preventive* as against *remedial* statutes.

This trend toward making the law more specific and certain is related to a frequently expressed criticism of antitrust legislation—that the laws do not clearly state which activities are illegal and which are not. One way to reduce the uncertainty would be to list specific practices and market situations as flatly illegal, or what is called a *per se* rule. We already have a few *per se* prohibitions —for instance, the Clayton Act provision against interlocking directorates. However, while we can be reasonably certain that this practice would inevitably reduce competition in most market situations, it is by no means certain that, say, all kinds of exclusive dealing arrangements or all mergers would restrict competition.

The point here is that a conflict inevitably arises between the desire for *certainty* and the goal of *prevention.* Moreover, the legislative history of the U.S. generally, and of antitrust laws in particular, shows that attempts to make statutes more exact by specifically proscribing certain activities serve to create greater uncertainty.

Such prohibitions could only usefully be applied on an industry-by-industry basis, and it is doubtful whether many of the businessmen now critical of the law would accept legislation that was specific enough to close all loopholes.

THERE ARE some situations, however, in which it is difficult to distinguish subtle forms of coercion and threats to competition from perfectly legitimate and desirable competitive practices. In these instances it is necessary to judge the tactics on the basis of their *effects* on competition. Large concerns are in a position (a) to engage in aggressive advertising and promotional efforts to popularize their brands on a basis not available to smaller companies, (b) to pre-empt and saturate distributive channels with full lines, (c) to integrate their operations extensively with preferential treatment to affiliates and subsidiaries, and (d) generally to confront rival firms with a pattern of competition that in some settings would be innocent and legitimate, perhaps even promotive of competition. In other settings, however, these same kinds of tactics would be conducive to the gradual erosion and the eventual destruction of competition.

Attorney General Kennedy

Other critics of antitrust policy deplore what they view as abandonment by the courts of the so-called "rule of reason" in favor of the *per se* doctrine, not only with respect to the practices specifically forbidden by law but also on the issues of size, monopolization and concentration. The meaning of the "rule of reason" is best illustrated by the dictum of the courts in the 1920 U.S. Steel decision that "mere size is no offense." Actually, however, company size is rarely the only issue. Abuses by a large company or companies are usually the cause of litigation.

The most direct assault on size, as such, came in the 1945 decision against Alcoa. In that case, the late Judge Learned Hand ruled that Alcoa's size was not only evidence of violation, or of potential offense under the Sherman Act; it was the essence of the offense. Size, meaning market control, said Judge Hand, was what competition and monopoly were all about.

The difficulty with the "rule of reason" as a standard is that historically it facilitated the growth of economic concentrations and monopoly power precisely because it required the courts to make value judgments about "good" and "bad" market "behavior" and "performance." Some critics of current antitrust policy would have the courts adopt some similar test of social performance, or "workable competition." There are different standards for "workable competition," but essentially the proposal is that the decision in an antitrust case should depend upon whether—considering all factors and circumstances in any given market situation—the performance of a defendant is, on balance, "good" or "bad" for society.

PERHAPS the most difficult problem facing antitrust policy today is the prevention of undue market power. Ours is not only a corporate society, but a society of large corporations. Over 50 per cent of the assets of American manufacturing industry is held by the 200 largest corporations. If the base is broadened to include finance and transportation, about two-thirds of all productive assets are owned by the 500 largest.

There is a still smaller group of corporations which makes decisions for the rest, by virtue of price leadership conventions, market-sharing understandings and other arrangements. This rather high level of industrial concentration has persisted over the past three or four decades, and can be expected to remain high in the future unless antitrust policy is drastically altered.

One cannot infer the existence of market power from large shares of

the market alone. But where we find, in addition, that a firm or firms can insulate themselves from the forces of the market, the range of discretion in management decision making is correspondingly widened. A variety of situations can afford such market power, but the underlying and most important source is corporate size itself.

TYPICALLY, economists look at large size in a *relative* sense—that is, relative to the total market, as when a few firms account for all or nearly all of the market supply. Economists call these situations "oligopoly," or literally "competition among the few." In manufacturing, for example, almost two-thirds of all markets (representing about 60 per cent of the value of manufacturing output) are dominated by oligopolists, especially in the durable goods and capital equipment industries. More specifically, in about one-third of all manufacturing industries, the top four firms supply 50 per cent of the industry's total output. All told, these *highly concentrated* industries account for more than one-quarter of the value of production of all manufacturing in the U.S.

A large company may also derive power from its total size, its financial strength and its ability to occupy many different markets and to engage in nonmarket activities that help consolidate its position. Moreover, a large, widely developed firm will have considerable power even in markets where its share is small. In these circumstances, survival and growth no longer depend on a concern's success in any given line or market area.

In effect, highly diversified corporations can commit their total financial strength in any of their satellite markets. Thereby they can use many types of diplomacy and economic warfare until only so much competition remains as they are prepared to tolerate.

The widespread influence of oligopolistic structures provides the principal source of jeopardy to competitive processes. Economists have been pointing out for years that under conditions of oligopoly (where a "Big Three," "Big Four" or "Big Five" dominate an industry), sellers will not pursue an independent policy on pricing. For manufacturers are certain that price reductions will be met by their competitors, and the fear of retaliation leads them to pursue a price policy that is not aggressive. The form of the convention for fixing prices and the way it is carried out is unimportant, since the result is the same.

A recent example of the kind of behavior that can be expected under oligopoly is seen in the electrical equipment conspiracy. Top elec-

trical equipment executives had followed an almost fantastic pattern of conspiratorial behavior, gathering together to work out common prices and to divide markets as though they were personal property. An ingenious system was devised for rigging bids on contracts so that each firm knew when to bid low or high, taking its turn in rotation at the low bid. As almost all the independent companies were involved, the conspiracy affected almost every dam constructed, every power generator, distribution transformer, distribution equipment and all types of electrical meters sold in the U.S.

The restrictive practices disclosed in the electrical equipment cases are merely superficial symptoms of excessive market power that is characteristic of oligopoly situations. Industries which do not have a competitive structure simply are not likely to be competitive. Under the present law, however, noncompetitive behavior among oligopolists cannot be adequately curbed. This means that, if competition is truly our goal, we must face up squarely to the issue of size and oligopoly. The most effective approach to reduction of undue market power would be a broad program of corporate dissolution, divorcement and divestiture—trust busting in the literal sense.

Some persons may fear that a vigorous antitrust policy would mean the weakening of our industrial system and a threat to its growth and progressiveness. In a very large percentage of manufacturing industries recent evidence indicates that the most efficient size of firm is considerably less than the present size of many of our leading companies. For example, in steel it is probable that up to five times as many independent firms could be supported by the market, and each still enjoy all the economies of large-scale production.

Likewise, from three to 10 times as many plants, all of efficient size, would be technically possible in copper, aluminum, automobiles, tractors and farm machinery, cigarettes, soap, rayon, gypsum products, rubber tires and tubes, meatpacking, metal containers, petroleum refining, distilled liquor, cement, canned fruits and vegetables, flour milling and shoes, to name a few. In some cases, industries in the U.S. are 10 to 20 times as concentrated as necessary for efficient, low-cost plants.

In certain industries, firms gain something in efficiency by operating more than one plant. Increases in efficiency are claimed from operating a number of steel plants, but some steel officials believe that one integrated plant of optimum size is as good as several. Consider that the U.S. Steel plant at Gary, Indiana, for example, is larger than the *total* operations of Jones and Laughlin, or National, or Youngstown, or Armco or Inland. In effect, *one* plant of the country's largest steel firm is larger than *all* the plants of the fourth largest producer. Thus, it is hardly surprising that several economists have stated that a dissolution of companies of the Brobdingnagian size of U.S. Steel would probably increase, not decrease, efficiency.

IT HAS BEEN suggested recently that a new law be enacted against market power. To simplify its application, market power might be conclusively presumed where, say, for five years or longer, a company has supplied 50 per cent or more of annual indus-

try sales, or where four or fewer firms have supplied 80 per cent.

The point is that giant firms are neither big because they are efficient, nor efficient because they are big. Concentration of production in the hands of a few producers may offset wastes of various kinds in some cases; but in a much larger number of cases we can have the advantages of both large-scale production and also of competition.

Moreover, it is erroneous to conclude that a high degree of concentration is the price we must pay for technological progress. Available evidence shows that, on the average, concentrated industries have not improved their efficiency more quickly or less quickly than have competitive industries. On the question of new products and product improvement, T. K. Quinn, former senior Vice President of General Electric, writes: "I know of no original product invention, not even electric shavers or heating pads, made by any of the giant laboratories or corporations, with the exception of the household garbage grinder. . . . The records of the giants is one of moving in, buying out and absorbing the smaller creators."

The electric equipment industry is not unique in this respect. The history of corporate growth discloses a definite tendency by the largest firms to acquire smaller, and frequently pioneering, competitors. An examination of recent merger trends reveals that leading firms are very prominent in both mergers and acquisitions. The list reads like *Fortune's* roll of the 500 largest firms.

The pattern is best described as *buying into* particular fields or markets by *buying out* competitors.

There is a tendency in these mergers and acquisitions toward more and more conglomerate oligopoly structures. A recent Federal Trade Commission study of the 1,000 largest corporations disclosed an amazing number of subsidiaries and subsidiaries of subsidiaries. Recently, firms have begun to set up "joint subsidiaries," but whether they are legal has yet to be decided by the courts. In a very real sense, the corporate fiction—the corporate facade—is a "false face"; behind it executives have set up an important structure of interlocking directorates and communities of interest. In brief, the main end product of far-flung enterprise is not efficiency, nor progressiveness, but unchecked private economic power.

UNFORTUNATELY, our present antitrust statutes are not capable of reaching this kind of power. Even if the present merger law were strengthened, that would not be enough. For instance, mergers that are obviously or highly likely to weaken competition could be made illegal—unless they can be shown to be harmless. But large companies would still become more and more powerful oligopolies through diversification, and they would not be violating such a statute. The reason for this curious circumstance is that our present concept of "monopolization" under the Sherman Act refers to a single industry or single market, while large corporations are becoming more and more diversified.

At the same time, it must be recognized that it would not be possible, as a means of reducing undue market power, neatly to break up all firms that might be appropriate candidates for such action. The most difficult cases would be those complex integrated enterprises where vertical operations are not restricted to a single succession of activities, or where a given raw material is utilized in different processes to fabricate a variety of products. While these cases would present problems, no such difficulties would be encountered in firms operating in regional markets, or whose operations are limited to related vertical lines segregated in separate plants or separate subsidiaries.

IN SUMMARY, the apparent inconsistencies and dilemmas in antitrust policy are not between the laws and reality, between theory and fact, between pious hopes and the imperatives of modern society. The issue is between the preservation of a free enterprise business structure on the one hand and, on the other, the growth of a monopolistic structure that would result from unrestrained business practices. Nothing in the technology of virtually all of manufacturing, mining and trade makes oligopolistic market structures inevitable. The available evidence points to the opposite conclusion.

Some supplemental antitrust legislation is, indeed, needed. Specific proposals that would greatly aid the cause of competition would be to strengthen the antimerger law by:

- Authorizing the Federal Trade Commission to seek preliminary injunctions in merger cases where a violation of the law is likely.
- Authorizing the Federal Trade Commission (or Department of Justice) to indicate for particular industries those types of mergers that would be illegal *prima facie,* with the burden of proof on the merging companies to rebut the presumption of illegality.
- Requiring notification to the antitrust agencies of proposed mergers by firms of significant size.

Above all, an integrated national economic policy to maintain competition is needed. Currently, there are important gaps and lack of coordination of high-level policy. More specifically, various government departments and agencies—the regulatory commissions, the Federal Reserve Board, the Department of Agriculture and even, at times, the Federal Trade Commission, have taken actions that restricted competition, either through misguided efforts or because they tried to serve segments of industry under their jurisdiction. In the past, for example, the federal government has—through the placing of contracts, special tax policies and sale of surplus plants—helped foster more powerful oligopolies.

A proposal worthy of serious consideration is to create a Department of the Consumer. This agency would be responsible for evaluating broadly the impact of government policies upon competition, and, where there are conflicts among the policies of federal agencies, to act as high-level spokesman for competition and the consumer.

In short, if we truly wish to maintain competition as a national policy, we need to work at it as energetically as at other national problems. Perhaps the impact of the electrical equipment conspiracy will serve to awaken the public and the Congress to the nature of the problem; and it may also impress on them the need for the legislation outlined above to strengthen our efforts in the antitrust field. ■

Bringing People Back Is Not the Point

by JOHN W. DYCKMAN

► *Since World War II, the problems of our decaying cities and our burgeoning suburbs have worried many observers of the American scene. Here John W. Dyckman, Associate Professor of City Planning at the University of Pennsylvania's Institute for Urban Studies, takes a hard look at the new pattern of urban growth and change. He feels that much of the enthusiasm for urban renewal in cities from coast to coast is based on the wrong considerations and the basic issues of the problem have hardly been touched by the planners.*

DURING THE POSTWAR ERA the large cities of the U.S. became the wellsprings of a new population movement as wave upon wave of central city residents began spilling out into the surrounding areas. Actually, of course, cities have always grown outward; but peripheral growth at the expense of the core is a modern phenomenon.

In the following discussion, I should like to consider in order (1) the principal characteristics of the new pattern of urban growth and change, (2) the problems involved in that change for both the suburbs and the older population centers, and (3) the extent to which urban renewal programs now under way can meet those problems.

Market forces and government programs have joined hands to speed today's younger middle-income families toward the outer reaches of metropolitan areas. The rise of the large-scale home builder in post-World War II America was facilitated by the housing program of the Veterans' Administration. And the search for large tracts of vacant land on which to construct new housing led directly to the metropolitan fringe where speculative activity was minimal and large-scale assembly feasible. The various levels of government added to the outward push with a flurry of highway building.

Thanks to "no down payment" provisions, young families with a minimum of capital could purchase *new* housing in a *new* area instead of attempting the difficult search for a "solid" neighborhood and a house that would fit family needs. Thanks to the highway building programs they were able to commute to jobs in the city even if the developments in which they lived were well off the commuter railroad routes. And, before long, shopping came to the suburbs—in such grand style as to attract customers from the city as well.

Returns from the 1960 census tell us that two-thirds of the total growth of urban areas in the decade between 1950 and 1960 took place on the outskirts of the cities. For the most part, the process of this growth has been quite orderly. After the mad scramble of the immediate postwar years, relatively few new suburban developments were constructed without at least minimum utility layouts, drainage facilities and on-site amenities. The new suburban manufacturing plants are superior in architectural design and are better places to work in than the older central city plants. The suburban shopping center may be inferior to a few of the downtown stores in inventory and price, but it surpasses them in comfort and convenience.

THE BUILDING UP of open space around the cities, however, has not been an unqualified boon even to the suburban communities. Their residents soon discovered that the ranch-style castle of the common man, however spacious compared with the city apartment, is not a self-sufficient unit. A great deal of supporting investment (more money per dwelling unit, on the average, than the $15,000 to $17,500 purchase price of the house itself) was needed for the schools, roads, sewers and other public services which would make the dwelling complete. The communities were faced with meeting these demands all at once.

In addition, since most of the new arrivals were young families with school-age children, the schools had to be constructed for a present peak of enrollment even though, over a period of years, it was likely that school enrollment would decline. Moreover, while the new communities had only limited sources of pub-

lic income, most of the new residents had urban rather than rural standards for services of all kinds, public as well as private.

Even the new shopping centers were not much help to many communities since the tax dollars of such an establishment go to the district in which it is located, and not all the new residential developments are so blessed. Many of the new industrial plants were established in unincorporated areas or in industrial districts which were planned as self-contained units. As a result, some of the residents of the mass-produced housing tracts have had to pay very high taxes, including a variety of special assessments. Even so, in several instances, real financial distress in the public sector could not be avoided.

The older, upper class suburban communities, meanwhile, had excellent school systems and good public services. But as their housing ages, and lower income families move in, their sources of residential property tax tend to diminish and private and public maintenance suffers. Once-proud shopping districts are gradually declining as they are losing out to the new auto-oriented "plazas."

All of the suburbs are finding that the costs of locally provided public facilities come high. Once a new suburban community has constructed adequate school facilities, it may find there is a desperate need for a community hospital or a new pumping station. Almost all the older suburbs are under pressure to provide public parking that will help their merchants compete with the "plazas" and "malls."

THUS, the small suburban community is sometimes an inefficient fiscal unit—too small to take advantage of economies of scale in public services and too specialized to realize full benefits from the taxation of non-residential activities. But the major objections to the concentration of growth at the periphery of the metropolitan region come from other sources.

Though the outer suburbanite may be willing to absorb the heavy cost of daily commutation in return for cheaper residential space, the core dweller finds that some of the costs are passed on to him in the form of automobile congestion on his streets, inadequate parking space and other frictions for which he receives no compensation.

Moreover, residents living close to the core of the city find that the extension of suburban subdivisions is steadily pushing back nature and threatening to remove it from reach. In the New York metropolitan area, the Regional Planning Association is concerned lest present development use up all available vacant land in the 7,000 square mile region by 1985 and set up a demand for an additional 1,100 miles of parkway.

A surprisingly large circle of social critics find even more fundamental flaws in the prevailing pattern of development. They hold that suburban life is stereotyped, monotonous and symbolizes a retreat from social responsibility into a world of private affluence and consumption. They attack its mystique of privacy and its preoccupation with consumer goods. It may be, however, that these criticisms should be extended to American life in general. For the middle-class preoccupation with private, family oriented consumption did not begin with the move to the suburbs.

PERHAPS the greatest problem to be created by the exodus to the suburbs concerns the great "grey areas" which have been left behind in the older areas of our cities. Typically, these are the areas into which stable lower middle-class and middle-class families were moving 35 years ago. Because of the great building boom in the Twenties, such areas constitute a sizable proportion of the total standing inventory of residential housing in many metropolitan centers of the country. For example, in the New York region, housing built between 1920 and 1929 constituted almost 30 per cent of the total supply standing in 1950. In the Bronx and Queens, it accounted for over two-fifths of the total.

There are a number of reasons why these areas have become less and less attractive to newcomers to the city. One of the foremost has been the change in consumer habits brought about by the automobile. The neighborhoods built 35 years ago were not designed for the extensive use of automobiles. Population density in the grey areas, while too low for economic extension of mass transit systems, may, nonetheless, be too great to allow a high percentage of automobile ownership. The three-flat or the six-flat dwelling unit, for example, crowded close to its adjoining neighbors, leads to severe street parking problems. And in the neighborhoods of bungalows on small lots, while parking space may be adequate, access to high-speed highways may not be so easy as it is from outlying suburbs. The grey areas are difficult places into which to fit the new styles of living.

As a consequence, these areas now tend to be occupied by low-income ethnic minority groups. In many instances, the resultant overcrowding of the dwelling units leads to physical and social arrangements at least as undesirable as those found in the older tenement areas. To politicians accustomed to viewing these areas as anchors of respectability and stability, the transition is a frightening prospect. Also, the new influx may be disastrous to old neighborhood institutions such as parish churches.

THE EMERGENCE of all of these problem situations has brought about a clamor for urban renewal. As the very word suggests, urban renewal proposes that the vast growth energy which has gone into the creation of more and bigger suburbs be partially rechanneled into replacement *in situ*. Instead of allowing the forces of growth to find paths of least resistance, it is proposed that they be directed toward the difficult job of regeneration.

The reasons for undertaking this effort are complex. In the first place, the continued existence of sizable urban slums is an anachronism in the midst of an increasingly wealthy society. Also, a persuasive argument can be made for salvaging the economic life of expensive public utilities and social overhead expenditures which cannot be transferred to another place and which, in some instances, are not yet paid for. Moreover, the incidence of crime is heaviest in the older central cities. Insofar as unsavory and unhealthy physical surroundings contribute to the incidence of crime, slum clearance can help solve the problem.

Finally, the residents of the suburbs, and the directors and employ-

ees of the new plants, are also users of the city. And even as their detachment from its life becomes more nearly accomplished, their nostalgia for the city as an idea deepens. While the rural youths who migrated to the cities in the past were the severest critics of its shortcomings, the present generation of suburbanites, who have become emancipated from most of the frictions of urban life, indulge in a reverie of glorification of the city.

In grossly oversimplified terms, these "new romantics" see the city as a glorified consumption center, with an emphasis on "high culture." The shops are either high fashion or quaint and arty, the streets are crowded, exciting, colorful. The central area abounds in gourmet restaurants, theaters, galleries and coffee houses. It is easy to get to, and safe for pedestrians. In short, it is devoted to the cultivation of highly developed consumer tastes.

Most actual city centers, of course, do not look much like this dream picture. What is more, only a few cities have a sufficient concentration of well-heeled romantics, conventioneers and other out-of-town guests to make any large-scale operation of such specialties profitable. Some which have the demand are hampered by physical layouts which make the entertainment of customers difficult. Architects and planners believe that urban renewal programs will remedy these difficulties and produce the urban style of life they admire.

THE TOTAL impact of urban renewal thus far has been small, if it is measured in terms of the percentage of dwelling units affected in any city. This is not surprising when one considers that the number of new dwelling units built in any one year in a typical metropolitan region is a small percentage of total stock—usually less than one per cent in the older areas. The urban renewal program, even if one extends it back to the 1949 Housing Act, is only a dozen years old. In this time, the regions where renewal has gone ahead most rapidly have realized an addition to stock only about one-seventh as great as the existing supply. However, only a minute proportion of these additions came about as a result of urban renewal programs.

Whatever may be the aesthetic and social advantages of urban renewal, does it make sense politically and economically? In other words, if the central cities can provide attractive new housing units through urban renewal, will they be able to compete in the housing market with outlying areas? The answer is probably yes, because at least part of the total demand for housing comes from families moving into the metropolitan area for the first time; the growth of the suburbs has not come about solely because of the "move out" from the central city.

BUT THE central cities face a major disadvantage in competing with the suburbs in housing. For higher in-

comes lead not only to a demand for new and better housing, but also to a demand for more space. Many house hunters are looking for space around the house, including parking space, as well as a spacious home interior. In the large metropolitan areas, one must ordinarily go some distance from the central city to find spaciousness at a reasonable price. In fact, the farther one goes from the city center, the cheaper the cost of the space desired. The ultimate restraint on this search for space is accessibility to transportation routes which converge on the center.

In America, the desire for space seems to be stronger than the desire to avoid the costs and inconveniences of transportation. Possibly this is due to the relatively low marginal cost of transportation to automobile-owning Americans. At any rate, the tendency for higher income groups to live farther out of the metropolitan region than lower income groups is in direct contrast to the European experience.

The cities cannot attempt to compete with the suburbs purely on the basis of space per dollar. Even if cities were willing to attempt redevelopment at substantially lower population densities in order to attract upper income groups, they would shortly find the consequences painful. For the present occupants of the areas turned over to such development would either be forced into other areas of the city or driven from it entirely.

In this latter event, the population of the cities would be reduced. And the cities cannot afford to lose population unless their public service loads are also reduced. The anguished cries from local officials in New York, San Francisco, Chicago and other cities which lost population between 1950 and 1960 are in part attributable to the fact that these losses in population also meant losses in state and federal aid. At a time when the low-income population of these cities is growing, and certain public service loads are becoming heavier, such reductions in state and federal aid can create serious problems.

But even if a loss of total numbers would be welcome, the cities would still feel the space squeeze. For the new factories, with their horizontal layouts, are also searching for larger square footage for their land dollar.

Much has been made recently of the great growth in storage capacity made possible by recent technological advances in data handling and communication. But despite this possibility of using space more intensively, the new office building boom has been characterized by a more lavish use of space. The size of an executive's office has become a measure of his importance and that of his company. With the pressure of such space demands becoming stronger, it is unlikely that central city planners can provide for large-scale redevelopment at lower population densities

without drastically reducing the total population of the central city.

Be that as it may, one after another city mayor has come forward with a plea for renewal projects which would hold the middle class or bring upper income groups back into the city. The recent action of the Buffalo city administration, through its housing authority, typifies the outlook of many of these cities. There the municipal authority is busy transforming a low-rent public housing project into a private middle-income cooperative.

This conversion is not being made because of a lack of demand for public housing in Buffalo. It happens that the location of the project is near both the central business district and Lake Erie. Thus, it is a prime site for potential high-income apartment dwellings. The project, which was surrounded by slums when it was built in 1952, now finds itself amid a sprinkling of substantial renewal and rehabilitation efforts which are attracting some middle income and upper income tenants. The hope of local officials is that, by changing the public housing project into a cooperative development, the renewal movement will be solidified and the area will attract still more middle-income tenants.

Mayors in Philadelphia, Cleveland and other cities have also openly called for renewal developments that would attract middle and upper income families. Underlying their efforts is the belief, expressed recently by the Mayor of Philadelphia, that the core city cannot flourish as a center of culture and commerce if it becomes an exclusively low-income community.

Actually, the role of *residence* may be exaggerated by city planners. For, in terms of ground rents, tenements and slums yield higher returns than luxury town houses. Thus, economic arguments for the replacement of slum dwellings with middle-income housing rest on two props: (1) the lower service load imposed by middle and upper class residents, and (2) their greater buying power, with its advantages to local businesses. On the other hand, the elimination of virtually all residence would reduce service loads for schools and welfare programs to an even greater extent. From an economic point of view, such a plan might be more effective than urban renewal plans stressing middle-income housing.

THE MAIN economic arguments for urban renewal are essentially misplaced. Urban renewal will have less effect on local fiscal health than would changes in the distribution of taxing powers among government levels or the absorption by federal and state governments of a greater share of public service costs. The case for renewal is either region-wide —on the grounds of promoting efficiency in the operations of the various functions of a metropolitan area —or it rests on appeals to civic pride.

If present urban renewal plans succeed, they may lure some high-income suburban residents back to the city and further accelerate the movement of lower income groups to the outlying suburbs, thus reversing the present trend. Since there are many more people in the lower income bracket than in the upper income group, a reversal of the present pattern could effect a "hollowing out" of the residential city. This would be followed by other developments.

First, demand by nonresidential users of the city, particularly business offices, would pre-empt much of the area now used by residents. Second, industry, along with many shopping facilities, would follow the lower income groups outside the city. Thus, conceivably, the single-centered metropolitan system could find even greater strains placed upon it than those that now vex it. Suburban growth would be more extended, open space would become scarcer, transportation more harassing and competition between suburban communities keener.

Eventually, if these strains should become severe enough, a new pattern of settlement, with substantially higher population densities in many places, could come into being. The new areas of population density could become real "subcenters" rather than mere satellites of the central city.

Is this a pattern we want to develop? Should urban renewal programs aim at "reconcentrating" the population or should they seek to thin out the areas presently slated for renewal? In regional terms, should New Haven and Philadelphia "concentrate," while Manhattan decentralizes, or vice versa? In their present planning enthusiasm, the cities seem only barely aware of these issues. ■

Economic cooperation in the free world

The U.S., the U.K. and IMF

by HENRY C. WALLICH

► *Last fall the International Monetary Fund met at Vienna in an effort to work out problems in international financial relations. Pointing up the significance of that meeting for the U.S., Henry C. Wallich, former member of President Eisenhower's Council of Economic Advisers and Professor of Economics at Yale, goes on to consider the problems which remain to be solved. Chief among these are how to fortify the international financial system against speculative flights of money, how to correct the present imbalance of payments in the United States and the United Kingdom, and how eventually to provide for international liquidity.*

THE SEPTEMBER MEETING of the International Monetary Fund at Vienna had one point in common with the famous Vienna Congress, which followed the Napoleonic Wars. Both meetings showed, in different ways, that major international settlements—either political or eco-

nomic—cannot be negotiated in a few days.

The Congress of Vienna lasted over a year and gave Europe a stable political structure for 100 years. The IMF meeting lasted five days and accomplished proportionately less. But thanks to intensive preparation over a much longer period, Treasury Secretary Dillon could fairly say at the end of the conference that America's most immediate objectives had been reached.

This positive appraisal could be made mainly because the objectives of the United States were relatively modest. Originally, the meeting was meant to strengthen the IMF by obtaining firm commitments from its industrial member countries to make additional resources available to the Fund when needed. This would replenish the Fund's now somewhat depleted resources, which it needs to do its job of helping to maintain international financial stability. The proposal for obtaining these commitments, known as the Jacobsson Plan, was less ambitious than the Bernstein Plan, which it resembled and which, in turn, was far less ambitious than its two leading rivals, the Triffin Plan and the Stamp Plan. (*See box below.*)

Discussions during the summer had shown that even the Jacobsson Plan could not count on immediate acceptance, largely because of resistance from France, Belgium and Holland. The United States representatives and Dr. Jacobsson, the Fund's managing director, sought and obtained from Germany and Italy indications of willingness to make funds available bilaterally, if the need should arise before more inclusive arrangements could be made. Fortunately, at the moment, the currencies of the more reluctant countries happen to be in less urgent demand at the Fund. There should be time to negotiate multilateral arrangements acceptable to all concerned which, of course, would also include Germany and Italy.

In its international financial relations, the United States must face up to three related problems which, nevertheless, should be differentiated. Failure to do so has already led to wrong assessments of our situation and of the options open to us. First, we must fortify the international financial system against speculative flights of money such as occurred during last year's election campaign. This sort of money movement, on a panic scale, led to a complete breakdown of the world's financial system during the 1930s and ushered in a decade of tightly controlled international trade. A plan for meeting such speculative movements was discussed in the Vienna meeting, but it will have to be negotiated further. The goal is to make sure that the dollar and the pound, as well as other currencies, cannot get into difficulties through sudden "hot money" movements.

The second problem is posed by the deficits in the balance of payments of the United States and the United Kingdom. Since the surplus countries have decided to hold part of their gain in dollars or pounds instead of withdrawing them in gold, foreign liabilities against the U.S. and the U.K. have been rising. Unless the rise in these balances can be slowed down, efforts to strengthen the credit mechanism will be to no avail. As the Vienna meeting has shown, creditor countries will not participate in such efforts.

The third problem will become significant, if at all, only after the first two have been successfully dealt with. It involves the need for raising world liquidity in the very long run. So far, reserve currency countries have added to world liquidity by running deficits. If they put an end to this, how is additional liquidity to be provided? Gold stocks grow very slowly. Even though liquidity need not grow at the same rate as international trade, eventually there must be some increase.

How did this kind of world payments mechanism develop? Most nations use dollars and sterling along with gold as their international payments reserves, because dollars and sterling earn interest and gold does not. This arrangement has become familiar as the gold exchange standard. It benefits the creditors through their interest earnings. It benefits the debtors—the United States and the United Kingdom—because it allows them to run a balance of payments deficit. And the gold exchange standard benefits the world as a whole because it automatically creates international reserves, and so supplies liquidity.

This painless way of financing balance of payments deficits has enabled the United States to extend more foreign aid and make more foreign investments. Thus, it has been of benefit not only to us, but to the entire free world. The gold exchange standard has many advantages, and it should not be given up easily.

But it does make the reserve currencies more vulnerable.

It is important to reduce the vulnerability of the reserve currencies. Probably excessive blame for the new instability of international payments has been placed on the gold exchange standard. If this standard did not exist, large hot money movements would still have become a threat the moment the world's major currencies returned to convertibility at the end of 1958. (The dollar, of course, has always been convertible.)

The dollar is vulnerable today, not primarily because there are some $18 billion in the hands of foreigners (who often hold onto them quite firmly), but because sophisticated Americans have become aware of the

PLANS FOR REVISING THE IMF

- *Triffin Plan*—advocates the establishment of an International Central Bank similar to the Federal Reserve System in the U.S.
- *Stamp Plan*—suggests that the IMF should issue certificates to serve as a type of international reserve currency.
- *Bernstein Plan*—would require member countries to lend to the IMF when their currency is needed, and gives borrowers easier access to the Fund's resources.
- *Jacobsson Plan*—requires member countries to lend to the IMF when their currency is needed.

possible advantages of taking their money abroad. If, in case of an international run, less sophisticated Americans start following their lead, the situation could become very serious. For the volume of domestic assets that in a crisis might seek to emigrate exceeds the foreign balances of the U.S. and could easily exhaust our gold reserves.

To avoid the danger of such massive shifts of funds, either for speculation or to take advantage of interest rate differentials, the major nations will increasingly have to coordinate their financial policies. The newly organized Organization for Economic Cooperation and Development (OECD) is the present focus of these efforts. In addition, larger credit facilities must be created, and this was attempted with some degree of success at the IMF's Vienna meeting.

But if large balance of payments deficits persist in Britain, and particularly in America, plans to coordinate financial policies and widen credit facilities will not work, nor will they even be acceptable to most European countries. In some American quarters, illusions still seem to exist in this regard. Confidence cannot be indefinitely bolstered by credit, nor will the credit be forthcoming if there is no confidence. The attitude of the creditors at Vienna made this abundantly clear.

THE UNITED STATES is in deficit today largely because other countries have increased their competitiveness in world trade. We have hurt ourselves somewhat by tolerating inflation and could hurt ourselves much more if inflation is allowed to go further. But so far there is no reason to lament that we have priced ourselves hopelessly out of foreign markets. We haven't. There is also no reason to blame the deficit on foreign aid, military expenditures or capital exports. These expenditures—in relation to our GNP, our imports or to world trade—have not advanced disproportionately; the opposite is more nearly true. Moreover, these expenditures increase the ability of foreign nations to buy from the United States. If American exports were as competitive as they used to be there would be no problem.

Toward the end of last year, the basic balance of payments deficit (which excludes short-term capital movements) almost disappeared for awhile, and there were some premature celebrations. What the optimists overlooked was that the United States was benefiting from a peculiar combination of business cycles. A big boom abroad was boosting American exports and the recession at home was cutting down our imports. But now the European and Japanese booms show signs of leveling off. Meanwhile, recovery here is raising imports. The present outlook is for a payments deficit of about $2 billion for 1961, reaching an annual rate of perhaps $2.5 billion (seasonally adjusted) in the fourth quarter.

The further outlook is not reassuring. Top Administration officials are forecasting a GNP of $600 billion by the spring of 1963, indicating an increase of $75 billion over present levels. Historically, each billion of GNP has meant something like $40 million of added imports and probably more during a rapid cyclical upswing. Within a couple of years, therefore, our imports may increase by more than $3 billion. Such large payments will raise purchasing power abroad, and thus will raise our exports as well. But the net effect may well be to widen the deficit substantially, unless really strong measures are taken.

According to the European view, budget balancing and raising of interest rates are appropriate measures for such a situation, which the United States should adopt as soon as business activity is strong. There is also much talk in Europe about national wage policies. The trouble is that budget and interest policies would probably work better in Europe than in the United States as a means of balancing a payments deficit. A balanced budget during times of high activity is, of course, appropriate for domestic as well as international reasons. In fact, the budget during such active periods should be in surplus. Adequate monetary restraint is likewise needed.

In the international sphere, however, the immediate effectiveness of high interest rates derives from their power to attract short-term funds from abroad. This inflow of funds strengthens reserves, but it does not improve the basic balance of payments. This basic balance is probably affected by budgetary balance and tight money only with a considerable lag in an economy like that of the U.S., where foreign trade is only a kind of appendage. Under some conditions, these measures may not produce balance at all. Actions along the lines of "sound finance" are necessary to the early correction of a payments deficit but, by themselves, they may not be enough.

WHAT needs to be done? Several measures in addition to budgetary and fiscal restraint were taken during the Eisenhower Administration. These actions applied restraints principally to the public sector. The loans of the Development Loan Fund were tied to procurement within the United States, and later the same was done for some of the funds of the International Cooperation Administration. Some military dependents abroad were called back.

President Kennedy has not followed through on all of these measures, but has instituted some new ones aimed more at the private sector. Taxes were proposed to restrain investment in American subsidiaries abroad, a proposal which Congress did not pass. Eisenhower's order on dependents abroad was revoked. Earlier efforts to share the burden of foreign aid with other industrial countries and to increase the amount of military procurement in the U.S. by our allies were pursued energetically. The powers of the Export-Import Bank to guarantee export credits were broadened. Simultaneously, however, the Kennedy Administration was compelled, as the Eisenhower Administration had been, to assume new foreign aid commitments in Latin America and Africa.

The range of measures directed specifically at the balance of payments has been helpful, but hardly adequate so far. The basic need is to increase our exports, thereby solving the problem through expansion rather than via cutbacks. The export drive which was started under Eisenhower never really got off the ground. Exports in 1960 were growing by leaps and bounds; to push them further seemed a superfluous effort. But since then export growth has slackened and the potential benefits of a well-organized cam-

paign to push up the volume have become more obvious.

Foreign markets are growing much more rapidly than our own. The number of American firms that export is small compared to the potential, and the laggards may be missing a unique opportunity. It should not be impossible to drive these facts home through a joint campaign of government and business. Cooperative arrangements such as the British have used among smaller firms for selling and servicing would help. Possibly we should begin to contemplate tax benefits to exporters, insofar as such measures would be compatible with the General Agreement on Tariffs and Trade (GATT). Accelerated depreciation for equipment employed for exports, for instance, would not conflict with this agreement.

UNLESS exports are expanded greatly, the balance of payments situation will become increasingly troublesome. To escape its pressure, we shall probably find ourselves cutting back one desirable or even essential international outlay after another—private capital exports, foreign aid, military expenditures abroad. Private capital exports, already under the fire of the Treasury's tax experts, will probably come first. In the short run we can live without them, but in the long run they earn more for the balance of payments than they cost. Thus, over the years, the reduction of capital exports will weaken rather than strengthen our balance of payments position.

There is some question, also, about the justice of raising the taxes of investors who went abroad in past years under the insistent urging of the government. And the cutting back of American foreign subsidiaries will delight protectionists at home, who regard them as competitors for American exporters and sometimes domestic industries. It might be more appropriate, if action along these lines becomes really necessary, to begin by curbing the flotation of foreign securities in this country.

A mounting payments deficit will bring on protectionist pressure as well as pressures against capital exports, foreign aid and military expenditures abroad. The Reciprocal Trade Agreements legislation expires next year and should be renewed in some form. The European Common Market is beginning to hit its stride, and the United States must be able to offer bargaining concessions if our exports are not to be handicapped in the world's fastest growing market. It is very unfortunate that Congress will have to open a debate on reciprocal trade at a time when we shall probably be faced with a large deficit in our balance of payments.

Pressure for drastic cutbacks in our international commitments will be intensified by those who, without being necessarily for protectionism or opposed to foreign aid, are impatient with the fiscal and monetary restraints that the balance of payments situation imposes. They note that a payments gap of a few billions may at times compel us to take measures that may cause the GNP to fall substantially below its potential. Hence, they conclude that we ought to get rid of our commitments overseas so that the domestic economy can be run at top speed. Unless a constructive solution for the balance of payments deficit can be found, the advocates of disentanglement will become increasingly persuasive. A new economic and political isolationism threatens from that unexpected quarter.

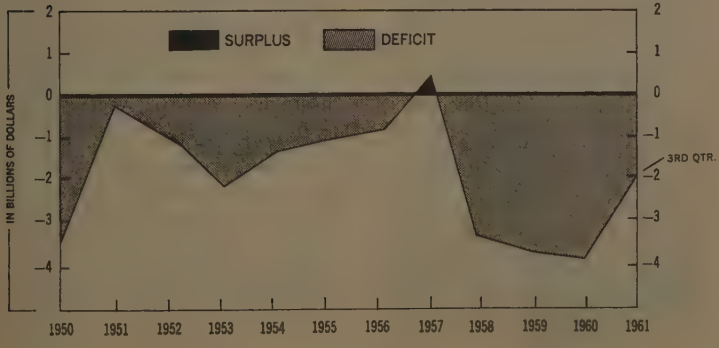
ONLY ONE degree less calamitous is the advice of those who want to escape international disciplines by moving to flexible exchange rates. Flexible exchange rates could make deficits disappear. But they would also destroy a good part of the world's liquidity, because a fluctuating dollar or pound could not serve as international reserve currency.

The proposal for flexible exchange rates probably would be highly inflationary to boot, at least for smaller countries. Declines in exchange rates intended to be temporary would nevertheless raise living costs and hence wages. With costs frozen at higher levels, the exchange rate could never rise again and domestic prices could never come down again. And because under flexible exchange rates each country would pursue independent domestic policies, economic nationalism would be strengthened at a time when greater integration of the world economy seems at last within reach. Unfortunately, as long as the payments deficit continues, flexible exchange rates will have their persuasive advocates.

All of these facets of the American situation are of course well known to the continental creditor countries. These nations are aware of the dangers of a resurgent American protectionism. They realize the consequences of cutbacks in foreign aid or military outlays. Most of all they are conscious of the dangers that a run on dollars or sterling holds for the world's monetary system, on which their own trade and prosperity depends.

BUT the principal creditor countries are afraid that if they put their money at the disposal of the IMF without restrictions, it may be used ultimately for financing the less developed countries. They want to restrict its use to an inner circle, limited to the industrial countries or perhaps only the United States and

U.S. BALANCE OF PAYMENTS, 1950-61



the United Kingdom. The immediate German and Italian contribution probably will not have this string attached, but subsequent multilateral offerings to the IMF presumably would. The unity and cohesion of the IMF is affected by these difficulties.

Some of the creditors, and particularly the French, apparently want to limit the conditions in which even the United States could use the additional resources. While presumably the creditors would have no veto over the use of the resources, they would have something to say about whether the conditions applied in any particular case.

The new attitude of the Old World is not without foundations. The Common Market countries, who would be the most likely creditors in the foreseeable future, have only modest voting strength in the IMF. These nations control 17 per cent of the vote, as opposed to 37 per cent for the United States and Britain jointly. They are hesitant to entrust their money to a majority of debtors, just as the United States was when the IMF was established at the end of the war.

Another factor, reflected in some private French utterances, is a visceral reaction against the dominant international role of dollars and sterling, and an innate predilection for gold. This reaction can be seen in private French proposals to dismantle the reserve currency role of dollars and sterling and to return to a pure gold standard. That this maneuver, in order to be feasible, would have to be preceded by a substantial upward revaluation of gold would not discourage the French, who are believed to have some $3 billion worth of gold in mattresses and other safe places.

Progress toward the first of the three goals—the strengthening of existing financial arrangements—has been a good deal less than complete. More substantial headway will have to wait upon progress with the second—the achievement of a better balance in American and British international accounts. Achievement of the third—finding a means of supplying international liquidity in properly controlled dosages—will be long in the making.

It would be nice, of course, in many respects, if we could have an international central bank, just as it would be nice to have world government, disarmament or universal reduction of tariffs. But national fears and self-interest present obstacles to all of these plans. Obstacles in the financial field may seem less obvious to many, but they have been no less real. For the time being, the world will have to concentrate on strengthening existing arrangements. How much work remains to be done on this relatively simple task is the lesson of Vienna. ■

Problems of technological unemployment

ARE SHORTER HOURS THE ANSWER?

by CLYDE E. DANKERT

► *Can the impact of automation on the work force be softened by shortening the workweek? Clyde E. Dankert, Professor of Economics at Dartmouth College, points out that, while shorter working hours may be desirable for a number of reasons, they will not significantly reduce technological unemployment. At best, a shorter workweek can have only a temporary effect since the volume of unemployment is not governed by the length of the work period. Prof. Dankert feels that the adoption of specific policies—e.g., a program of retraining—aimed at helping individuals whose jobs have disappeared would do much more to solve the problems introduced by automation than any across-the-board reduction in working hours.*

MUST THE LENGTH of the workweek be reduced if we are to cope effectively with the impact of automation on the labor force? Have we, in fact, reached the point where shorter working hours are more of a necessity than a luxury?

Many persons would answer "yes" to both questions. For instance, Harry Bridges, head of the Longshoremen's and Warehousemen's Union, has declared: "The answer to the machine is shorter hours, with no cut in take-home pay." David McDonald of the Steelworkers has proposed, as one means for dealing with technological unemployment, that the average workweek as set forth in the Fair Labor Standards Act be cut from 40 hours to 30 or 32 hours. And Joseph A. Beirne of the Communication Workers has suggested a shorter workweek, longer vacations and earlier retirement as means by which collective bargaining can cushion the impact of automation.

Over the years various arguments have been used by union leaders and others in advocating shorter hours. One of the first arguments was that shorter hours made effective citizenship possible; later it was argued that they contributed to the health of the workers. Then came the greater pay argument—which assumed that since the workers now had more leisure they would have greater wants and hence would demand, and tend ultimately to receive, higher wages. Greater production was the next point to be brought up; it was argued that shorter hours meant greater output per worker because of reduced fatigue and increased motivation. Subsequently the subject was approached from the point of view of maximizing human welfare.

Finally, we come to the unemployment argument, which has received by far the most attention during recent years. That is not to say that this point has not been raised in the more distant past. It has, many times.

• In his annual report to the AFL in 1887, Samuel Gompers stated: "The displacement of labor by machinery in the past few years has exceeded that of any like period in our history. . . . The answer to all opponents to the reduction of the hours of labor could well be given in in these words: 'That so long as there is one man who seeks employment and cannot obtain it, the hours of labor are too long.' "

• In the midst of the Great Depression, Gompers' successor, William Green, asked in another report to the AFL, "Is there any reasonable, sensible-minded man who can believe we could equip machinery and provide [work] six days per week and eight hours per day in a highly developed, mechanized industry for every man and woman willing to work?"

• And, in a different context, Ernst Toller echoed the sentiments expressed by Gompers and Green. In his play, *The Machine Wreckers,* one of his characters says:

Thousands will have bread
if you but shorten hours.

Thus, the unemployment argument for shorter hours is by no means new. But to what extent is it sound? To begin with, it is obvious that a *temporary* reduction of working hours is often a very desirable policy for dealing with unemployment; this device has long been used by businesses to mitigate the effects of both seasonal and cyclical fluctuations. Unions have generally accepted the policy—indeed, they have pressed for its adoption—but with limitations. When hours are reduced to a certain point, say to 25 or 30 a week, unions prefer the use of layoffs, based on seniority.

Temporary reductions in working hours can also be used to lessen the amount of technological unemployment, though here the policy may be more difficult to apply. Workers whose jobs have been destroyed may not be equipped to perform, on a part-time, share-the-work basis, the new jobs that are made available.

The policy of temporarily reducing working hours is based on the assumption that, for the time being, the volume of production and employment is limited. Hence, it is a good policy to spread the work among all or most of the workers—in other words, *to substitute underemployment for unemployment.* But this policy also assumes that both production and employment will increase again before long, and that this will end the need to curtail the number of hours worked.

There is general agreement on the first assumption. For, in the short run, the amount of work to be done—the size of the "work fund"—*is* limited. From this point of view, the shorter hour policy has much to commend it.

But on the second assumption—that production and employment will increase before long—opinions differ. Many of those who want a shorter workweek believe that the long-run outlook for production, and particularly for employment, is dim. Consequently, they say that if unemployment is to be kept to a minimum, the workweek will have to be permanently reduced.

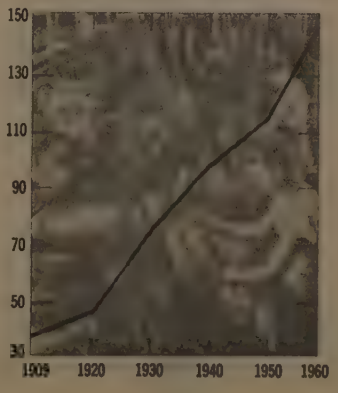
A case can be made for a permanent reduction in working hours in the near future, if not at the present time. As the productivity of industry increases and real wages go up, an increase in the amount of leisure for workers becomes desirable. Their general well-being is, of course, enhanced by extra leisure.

There is every reason to believe that, in the years ahead, the 35-hour week will become increasingly common, and in some occupations the 30-hour week will be introduced. Paid vacations will become longer, and even the extra "sabbatical leave" type of vacation that David McDonald has proposed may become a reality. The trend also indicates an increase in the number of single holidays. In all, the outlook for shorter hours is definitely promising.

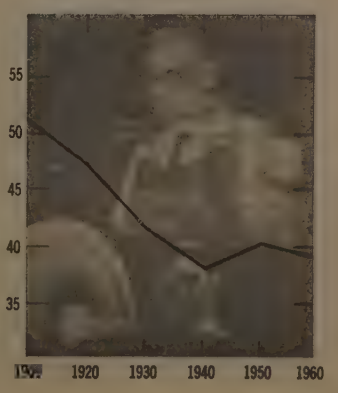
But a reduction of working hours will *not* solve the problem of technological unemployment nor even make any large contribution toward the solution of the problem. Those who feel that automation not only makes possible shorter hours but also *necessitates* shorter hours (because of a permanent scarcity of jobs) are unduly optimistic about the effectiveness of their proposal.

It is true, of course, that an across-the-board reduction in working hours would open up new jobs. Thus, to a certain extent, such action would cushion the effect of technological unemployment. But this solution, at best, could only have a temporary effect since the volume of unemployment is not governed by the length of the work period. Unemployment arises when there are discrepancies between the supply of labor and the demand for it. These discrepancies are caused by structural, seasonal, cyclical and other influences. And these influ-

OUTPUT PER MAN-HOUR
FOR PRODUCTION WORKERS IN MANUFACTURING, 1909-60
(1947-49 = 100)



AVERAGE WORKWEEK
OF PRODUCTION WORKERS IN MANUFACTURING, 1909-60
(IN HOURS)



ences take effect regardless of the length of the workweek. To put it another way, we can have as much unemployment with a 25-hour week as with a 40-hour week.

If any significant relationship existed between the length of the work period and the volume of unemployment, we would have some reason for expecting historical facts to show or at least suggest it. But despite the phenomenal reduction in the workweek that has taken place over the past century and a half, the *relative* amount of unemployment in the country has not diminished. (Of course, other factors have been involved in the situation so this argument cannot be looked upon as being conclusive.)

If the amount of work to be done in our economy were definitely limited, there would be some point in permanently reducing the workweek now. If it is true, as one observer stated back in the early 1930s, that "our machines and our science of management have made us so efficient that there is no longer enough work to go around," then we should adopt a share-the-work program.

However, there has never been much reason to believe that a permanently fixed work fund exists. Hence there is no compelling need for permanently reducing the number of working hours in order to lessen the amount of unemployment. This does not mean, however, that we should not want to reduce them for other reasons.

THE ECONOMIC effects of shorter hours are closely tied up with the matter of wages. The unions usually assume in making their demands for a reduction in working hours that the weekly wages of the workers would remain the same. This means that hourly wage rates would be increased in proportion to the extent that working hours were reduced. The effect of such increases in hourly wage rates on the individual employer, and on the economy at large, is difficult to assess. The economic condition of the firm and of the economy, the size of the hourly wage increase, the extent to which productivity gains have already been "used up" by wage advances—these are some of the considerations involved in the question. In broad terms, it can be said that any possible benefits that would accrue to the economy as a whole, following a raising of wage rates through a compulsory cut in working hours, would be quite modest. Under some circumstances, indeed, the effect could be adverse.

There is also a close relationship between hours and output. Shorter hours would probably increase output per hour. But the crucial point is whether a reduction in hours would also increase output per day or per week. In a study of the eight-hour day made in the 1890s, there appeared the statement: "Experience shows that, in the arithmetic of labor . . . two from 10 is likely to produce, not eight, but even eleven." Strange things may well happen in the arithmetic of labor, and in the 1890s there may have been factories in which more could be produced in eight hours than in 10 hours. However, if today working hours were to be reduced to any sizable extent, production would likely suffer. Five from 40, for example, would not produce 42, but probably 36 or 37.

THERE IS good reason to believe that if the length of the workweek were reduced by three, four or five hours at the present time, production would suffer. And, at a time when the Soviet Union is engaged in a vigorous effort to outproduce us, we should be very careful about sacrificing production (potential if not actual) for leisure.

In a sense, the attempt to deal with unemployment by means of a reduction in working hours represents a confession of failure. While we talk about reducing the workweek in order to provide enough work for the populace, West Germany is importing workers from other countries and Soviet Russia is engaged in an effort to pull between five million and six million more women workers into full-time jobs. These facts should impel us to put more thought and effort into the task of achieving a higher rate of economic growth.

There is a widespread feeling in this country that our growth rate should be speeded up if we are to compete effectively with the Soviet Union in the world arena. An average annual increase of five per cent in real GNP has been held up as a goal. If we are even to approach this goal, we shall have to be satisfied, at least for the present, with only modest increases in our leisure time.

Of course, in the Soviet Union too, hours are being cut. The Communist party has declared that the 40-hour week will be achieved by 1962, and that by 1964 a gradual shift to still shorter hours—as low as 30 in some occupations—will be under way. This last prediction, however, should not be accepted without some reservations.

The trend toward a shorter workweek is clearly apparent in other industrialized countries as well. But the average length of our workweek is still considerably below that of most other nations. Insofar as this achievement represents a better life for our workers, we can be proud of it. But to think of reducing the workweek further as a means of dealing with unemployment only raises false hopes.

If we are to cope satisfactorily with the problem of technological unemployment, we shall have to do more than shorten working hours. We shall also have to do more than attain higher levels of industrial activity. Specific policies aimed at helping individuals who have been victimized by technological and other structural changes will have to be adopted on a much wider scale than they have been in the past. Fortunately, the Kennedy Administration has made a start in this direction.

A Presidential Advisory Committee on Labor-Management Policy to consider the question of automation has been appointed. A $394 million bill has been passed which will help depressed areas with a high rate of long-term unemployment. In addition, the Administration has attempted, but so far without success, to promote an extensive retraining and relocation program to increase the occupational and geographical mobility of workers displaced by automation. All these programs are signs of a new approach to one of the serious problems posed by "the machine." Such an approach offers much more hope of solving our unemployment problem than the policy of instituting a permanent reduction in working hours. ■

Soviet Resources and Potential

by HARRY SCHWARTZ

Soviet Power: Energy Resources, Production and Potentials. Jordan A. Hodgkins. 190 pp. Englewood Cliffs, N. J.: Prentice-Hall. $5.25.

IT IS a fairly safe prediction that this volume will very soon be a standard item in the libraries of all people and institutions seriously interested in the Soviet economy. So far as this writer knows, Prof. Hodgkins has prepared the most detailed recent analysis of Soviet mineral fuel resources—coal, oil, natural gas and oil shale—to appear in any Western language.

The great wealth of mineral fuels in the Soviet Union has, of course, provided much of the base for the rapid industrialization of the U.S.S.R. which has so altered the pattern of world power since 1945. Soviet oil, moreover, has provided a major weapon for the U.S.S.R.'s economic offensive in world markets. Petroleum price cutting by the Soviet Union has already cost Western oil producers dearly and promises them more grief in the future. The wealth of data collected by Prof. Hodgkins, and the ingenious charts he has prepared—which present the geographic distribution of different fuel resources in terms of kilowatt-hours—are certainly relevant to this situation.

The valuable features of this volume make it all the more regrettable that Prof. Hodgkins' work is marred by some major weaknesses which considerably detract from the book's importance and make it, to some extent, even misleading.

There is first the problem of incompleteness. This volume is not what the dust cover claims: "A definitive analysis of Soviet energy resources—their locations, potentials, production and consumption." The book has virtually nothing to say about water power, a major source of Soviet energy today. It similarly ignores the question of Soviet uranium resources for atomic power as well as the possibility of power from controlled thermonuclear reactions. The progress of technology, in short, has made the author's conceptual framework obsolete; the book is not "a definitive analysis of Soviet energy resources." It should have been called by the more limited but more accurate title: "A Study of Soviet Mineral Fuel Resources and Production."

IT IS IRONIC that Prof. Hodgkins' book should be dominated by a consideration of Russia's huge coal resources. These, the author calculates, make up 99.3 per cent of the country's mineral fuel energy resources. The result is that more than half the book is devoted to coal, and the concluding chapter on the total energy potential of what the author erroneously calls "all nonrenewable energy resources" is dominated by the discussion of coal. The irony results, of course, from the fact that the coal industry in the Soviet Union today is a stagnant industry, while the focus of Soviet and world attention is upon the spectacular growth of the mineral fuels industry—oil and natural gas. The book reflects the fact that its author's tastes and interests incline more to geography and geology than to current economics.

In the very long run, it may be that Hodgkins' emphasis is the right one—though the promise of almost limitless power from controlled thermonuclear reactions raises questions about this conclusion. But in the short run—that is, during the present generation—the huge coal deposits in virtually unpopulated Eastern Siberia are of much less interest than the possibility that Western Kazakhstan may soon become a major source of Soviet oil on a par with the Volga-Urals and Baku regions.

MUCH MORE serious than the author's overwhelming preoccupation with the coal resources of the Soviet Union is the lack of economic understanding displayed in this volume. This has a number of unfortunate consequences.

First, it leads Prof. Hodgkins to ignore, or almost ignore, all the most interesting economic questions. What are the factors involved in the competition among alternative fuels in the Soviet Union? Why did the Soviet government neglect oil and natural gas for so long, and what was the cost of this neglect? Why has Khrushchev decided to shift his emphasis from building huge hydroelectric stations to the less glamorous construction of much smaller thermal stations? The lack of any serious and extended discussion of these and other important economic facets of the Soviet energy situation is difficult to understand, especially in view of the great amount of work that went into other less important aspects of the picture—for example, the listing of all Soviet coal sources, even very minor deposits.

Second, Prof. Hodgkins' lack of economic sophistication leads him at times to draw wrong conclusions. Thus, he advances the naive view (p. 40) that it is "nonrational" for the Soviet Union to be producing most of its coal in areas where coal reserves are relatively low. He seems to think that a "rational" approach would be one in which there would be a more or less equal ratio between coal production and coal reserves in a given geographical area. Unfortunately, as the author notes unhappily, the pattern of Soviet popula-

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tion, industry and coal consumption is extremely different from the geographic pattern of coal reserves. No economist will be surprised that the location of the greatest demand rather than the location of coal resources has the upper hand in deciding which of the Soviet coal reserves will be exploited first.

Finally, this lack of economic sophistication mars Prof. Hodgkins' discussions of costs. He accepts Soviet cost figures at face value, apparently failing to realize that they do not reflect true scarcity relationships. This is so because of the arbitrary nature of Soviet prices and because these prices do not take into full account the cost of the capital employed in production. Moreover, Prof. Hodgkins tends to discuss production costs in isolation from transport costs, usually slighting the latter. However, the important cost from the consumer's point of view is the cost at the point of consumption —that is, production cost plus transport cost.

The strictures in this review should not detract from the core of Prof. Hodgkins' real and worthwhile achievement. He has brought together in convenient form a great deal of helpful information about the Soviet fuel situation which many people will find extremely useful. But his analytic powers unfortunately did not measure up to his extraordinary industry in the collection of basic information. ■

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The Theory of Economic Integration. Bela Balassa. 304 pp. Homewood, Ill.: Richard D. Irwin, Inc. $7.35.

• The formation of closer economic ties among countries in both Europe and Latin America has raised considerable interest in the process of economic integration. In this volume, written by an Assistant Professor of Economics at Yale, attention is focused on the theoretical problems involved in the integration of independent national economies. Thus far, as the author points out in his preface, considerations of economic integration have concentrated on problems of resource allocation in a *static* framework. Prof. Balassa emphasizes the *dynamic* effects of integration—particularly its effect on economic growth.

Integration is defined as a process encompassing "measures designed to abolish discrimination between economic units belonging to different national states." These measures include the establishment of free trade areas, customs unions, common markets, economic unions and, finally, total economic integration. The author's theoretical principles are applied to each of these forms of integration. Special attention is given to such present-day projects as the European Free Trade Association and the Common Market.

The first two sections of the book deal with such problems as commodity movements, factor transfers, and internal and external economies of scale. The last four chapters deal with the difficult tasks of economic policy in an integrated area. Regional and social as well as monetary and fiscal problems are taken into account.

The Theory of Economic Integration is designed for economists and will certainly prove useful to the student of international economic relations. But it would perhaps make difficult reading for those not acquainted with the economic terms and concepts involved.

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Labor's Grass Roots. Jack Barbash. 250 pp. New York: Harper & Brothers. $4.95.

• The union movement as it was originally conceived by its founders was democratic in both form and procedure. The responsibility of the leaders to the membership was clearly defined and strongly emphasized. Recently, however, the extent of democratic procedures in the unions has been questioned. Some unions have been revealed to be authoritatively controlled and less than responsive to their rank and file.

The author, who has served in a variety of capacities for both labor and management, and who is currently Professor of Labor Education and Economics at the University of Wisconsin, approaches the question of democracy in modern unionism by analyzing the inner workings of the union local. The roles of the business agent, the shop steward and the individual union member are all subjected to intensive analysis.

Prof. Barbash then examines the political processes of the local in the light of our accepted notions of democracy.

He freely admits that in the union movement of today certain procedural matters have not been carried out in democratic fashion. But he feels that critics of the union have put undue stress on this point, thus distorting the picture as a whole. As he puts it: "A total appraisal of democracy in the local union as I understand it must recognize that these defects, significant as they are, do not critically impair the great vitality of democracy in the local union!"

Although the material discussed in *Labor's Grass Roots* is not revealingly new, and sometimes is treated in an overly optimistic manner, the book is certainly a good primer for those concerned with an important issue facing Americans today.

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The Stagnant Society. Michael Shanks. 236 pp. Baltimore: Penguin Books, Inc. $.95. Paperback.

• Year by year Britain's rate of economic growth has been falling behind that of her competitors. The reasons, argues Mr. Shanks, are not basically economic. Rather, he feels that current British stagnation can be attributed to class barriers and traditional values which are out of place in the modern world.

Mr. Shanks feels that a first requirement in changing the present order is a drastic reform of the British trade unions. But this, of course, would require a re-examination of the entire system of industrial and class relations. *The Stagnant Society* provides such a re-examination—an exceptionally penetrating and challenging one which does not fail to take into account the wider world situation.

Mr. Shanks' proposals will undoubtedly be considered radical by many of his countrymen. But there is no doubt of the urgency of the problems he discusses. Throughout, those problems and the proposed solutions are presented in a clearcut, interesting and highly literate fashion. It is a pleasure to come across a book on economic policy which, without sacrificing ideas and content, avoids the jargon and the complicated phrasing which make so many treatments of the subject unreadable to the average layman.

Also of interest

American Economic Thought In The Seventeenth Century. E. A. J. Johnson, 292 pp. New York: Russell & Russell, Inc. $7.50.

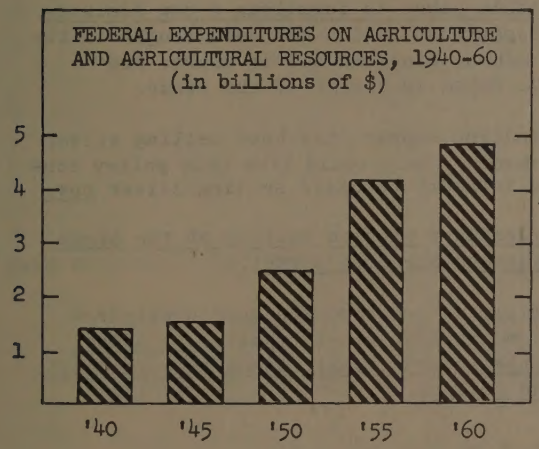
Bargaining In Grievance Settlement; The Power of Industrial Groups. James W. Kuhn. 206 pp. New York: Columbia University Press. $4.50.

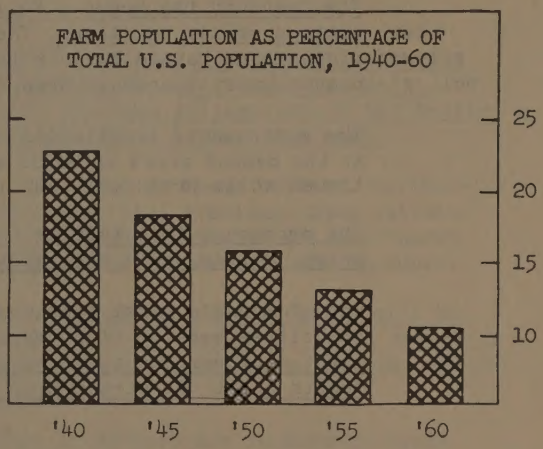
Competition In The Aluminum Industry, 1945-1958. Merton J. Peck. 227 pp. Cambridge, Mass.: Harvard University Press. $5.25.

THE DOMESTIC ECONOMY—Government support for agriculture, conceived as a temporary program in the 1930s, has become a permanent fixture in the federal budget.

Not only has the agricultural program become a permanent one, but it's cost has constantly risen, while the farm population, both as a percentage of the total population as well as in absolute numbers, has consistently declined.

In 1940, for example, budget expenditures on agriculture and agricultural resources amounted to $1.5 billion (see graph below, left) while the farm population accounted for 22.8% of the total population (see graph below, right). By 1950 expenditures had risen to $2.7 billion and the farm population had dropped to 16.5% of the total. Last year expenditures on agricultural programs reached $4.8 billion, with the farm population dropping to a mere 11.1% of the total.





In absolute terms, between 1940 and 1960 farm population dropped from 30.5 million to 19.9 million. These figures raise two significant questions: Why have federal expenditures for agriculture risen so rapidly despite the decreasing farm population? As the farmer's political power declines, how long will the American voters be willing to pay taxes to support a larger and larger farm program?

The answer to the first question is very simple. A combination of scientific agriculture and automation has raised farm output to a fantastic degree, thus necessitating bigger and bigger government programs to support farm prices—which would naturally fall in a free market.

The answer to the second one, however, is far more complex. One of the reasons that farmers are able to exert such a tremendous political influence in proportion to their numbers—only 11.1% of the population—is that political reapportionment has not kept pace with the shift of farmers to urban areas. While Congressional districts are reapportioned every 10 years, the responsibility lies with the state legislatures, many of which have not been redistricted for half a century. Thus, farmers are represented at state and national levels out of proportion to their numbers.

While most voters agree that farmers are entitled to government help, as are other areas of the economy, there is growing disenchantment with a program that has tripled in cost over the past 20 years—and promises to grow even more expensive.

Robinson-Patman redefined

ECONOMIC NEWS NOTES—The Federal Trade Commission has redefined its position as to what constitutes discriminatory price cutting under the Robinson-Patman Act.

The Act prohibits those engaged in interstate commerce from either receiving or granting special price or service concessions which would substantially lessen competition. A company, however, which in "good faith" cuts prices to meet competition is specifically exempt.

In its latest ruling—which involved Sunshine Biscuits, Inc.—the FTC declared that the exemption clause applied only when a company is fighting to retain an old customer and not when it is seeking a new one.

If the decision is upheld by the courts—Sunshine plans an immediate appeal—it could start a rash of new prosecutions under Robinson-Patman.

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new silver policy?

The Treasury has begun a full-scale study to formulate a new Administration policy on silver. The Department, which has been caught in the middle of a battle between the mining bloc and silver users, has placed Under Secretary Robert V. Roosa in charge of the study.

The government, despite its dwindling supply, has been selling silver at the pegged price of 90.5c an ounce. Users would like this policy continued while producers want the Treasury to cease selling silver now.

The producers feel that if the Treasury stopped selling at the pegged price, silver would naturally rise on the free market.

One of Roosa's first problems will be to decide whether to withdraw the silver backing of currency and replace it with gold. The effect might, however, be to increase the international financial community's doubts about the strength of the dollar.

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the CEA's projections

The Council of Economic Advisers has developed a set of projections which show how the economy would look if "reasonably" full employment were achieved in 1963.

The projections cover GNP, national income, employment and industrial production. They are designed to help both government and business make proper decisions to achieve higher levels of production and employment.

While some conservatives think that the project smacks a little of government economic planning, most business groups seem to feel that the data will provide better information on which to base future plans.

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effects of moonlighting

According to a Labor Department survey, "moonlighting"—despite some popular notions to the contrary--has played practically no part in aggravating the unemployment problem.

Although about 3 million persons—approximately 4.6% of the employed labor force-held more than one job, most of the extra jobs accounted for only a few hours a week.

In addition, many of these extra jobs were in highly skilled and technical fields for which most of the unemployed would not qualify.